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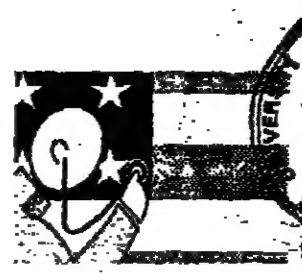

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FINANCIAL TIMES

Monday June 22 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

Bahrain urges Gulf states to improve ties with Baghdad

Bahrain has become the first front-line Gulf country to urge better relations with Iraq since the forces of Saddam Hussein were driven out of Kuwait last year.

Sheikh Khalifa bin Sulman al Khalifa, prime minister, said at the weekend it was time to open a new chapter in relations among the Gulf states and put behind "whatever has happened between us". At the height of the Gulf war Bahrain was the target of Scud missiles and was host to more than 17,500 US servicemen. Page 12

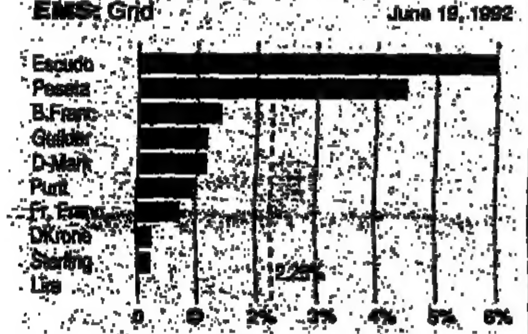
Lloyd's of London: About 4,500 Lloyd's Names face average losses of more than £100,000 ($185,000) each for 1989, it has emerged following official confirmation that the insurance market lost £2bn in that year. Page 13

O&Y assets shifted: The Reichmann family of Canada has moved assets worth several hundred million dollars from Olympia & York Developments, the holding company under court protection, into private family companies during the past 18 months. Page 13

Bosnia faces all-out war: Croatian and Serb forces are preparing for an all-out war in Bosnia-Hercegovina aimed at dividing the independent republic between the two sides. Page 3

European Monetary System: The Italian lira remains firmly at the bottom of the European Currency System's grid after a week in which the Bank of Italy was forced several times to intervene in the open market on its behalf. Its differential against the strongest currency, the Portuguese escudo, is wide enough for central bankers to be concerned about the possibility that it will test its limits in the EMS this week. Sterling is second from bottom in spite of comments from the UK chancellor that the pound could enter the system's narrow bands when the time is right. If today's figure for the UK's current account and trade balance in May is disappointing, the pound may weaken. Currencies, Page 23; Exchange rate stabilisation, Page 4

EMS: Grid June 19, 1992



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. Currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling, the Spanish peseta and the Portuguese escudo operate with 6 per cent fluctuation bands.

Moldova plea: Moldova appealed to Russia to pull back from the brink of war after fierce fighting between Moldovan forces and Slav separatists in the former Soviet republic. Page 3

Bank regulation guidelines: New guidelines on minimum standards for bank regulation, designed to reduce the risk of big banking frauds, are to be issued over the next few weeks by the main industrial countries. Page 12

Moscow seeks special IMF deal: Moscow is pressing the IMF to allow it access to $24bn in aid even though its economic reforms do not observe IMF conditions. Page 3

US to abolish defence levy: The Bush administration has decided to abolish recoupment fees – a levy on foreign sales of defence equipment or civilian goods using technology developed by the US defence industry. Page 2

Mirror Group: The accounts of Mirror Group Newspapers, to be published tomorrow, will show losses of more than £300m ($550m) after full provisions. The gross losses are expected to total about £400m, including money that disappeared in the last months of MGN chairman Robert Maxwell's life and £150m in lost pension funds. Page 6

SmithKline Beecham: The Anglo-American healthcare and consumer group has signed a co-promotion deal with Sigma-Tau, Italian private healthcare company, to sell a drug in the US for degenerative disorders. Page 14

Unibank rumours quashed: Nationalbank, Denmark's central bank, said rumours of serious difficulties at Unibank, Danish commercial bank, were "unfounded", and promised to provide cash support should it be necessary. Page 14

Chicago expansion: The Chicago Mercantile Exchange plans to build a second trading floor, doubling its capacity and resulting in the world's largest exchange trading facility. Page 14

Bhopal payments: Seven years after the world's worst industrial disaster, India has fixed compensation for victims of the Bhopal pesticide plant gas leak. Payments will range from Rs50,000 to Rs300,000 ($1,900-$11,500).

Test cricket: Pakistan beat England by two wickets in the second Test at Lord's to take a 1-0 lead in the five-Test series. Scores: England 255 & 175; Pakistan 293 & 141-8.

European soccer championship: Germany beat host nation Sweden 3-2 in Stockholm to reach the final where it will meet either Holland or Denmark who play their semi-final tonight.

Mandela promises to defy Pretoria if state of emergency is reimposed

ANC halts talks after township massacre

By Philip Gawith in Johannesburg

SOUTH AFRICA'S peace process was in danger of collapse last night after Mr Nelson Mandela, president of the African National Congress (ANC), announced the suspension of bilateral talks with the government.

Mr Mandela's decision follows the massacre last Wednesday of 42 people in Boipatong township. A further three people died on Saturday when police opened fire on a crowd which had gathered to protest at the killings.

The ANC has blamed Chief Mangosuthu Buthelezi's Inkatha Freedom party for Wednesday's tragedy, and accused the police of complicity, a charge which is denied by the government.

"I can no longer explain to our people why we continue to talk to a regime that is murdering our people and conducting war against us," Mr Mandela said.

He also said he would lead a campaign of defiance should the government reimpose a state of emergency, as suggested by President F.W. de Klerk after his abortive visit to Boipatong on Saturday when angry youths chased him out of the township.

The negotiation process was "completely in tatters", Mr Mandela told a rally yesterday of about 15,000 supporters in the township of Evaton, 50km south of Johannesburg.

He said an emergency meeting of the National Executive Committee of the ANC would be held tomorrow to "examine our options" in the light of the events at Boipatong.

While militant elements within the ANC would favour calling off negotiations, this can, at best, be a short-term measure. With sanctions gone and the armed struggle suspended, the ANC lacks the means to force the government from power. It will probably show its displeasure by intensifying mass action while making its continued participation in negotiations contingent on a suitable government response to Boipatong.

Mr Mandela's comments came

Continued on Page 12
Background, Page 4

African National Congress president Nelson Mandela during his visit to Boipatong yesterday

Havel demands referendum on break-up

By Ariane Genillard in Prague

PRESIDENT Vaclav Havel of Czechoslovakia put his personal prestige on the line yesterday and called for a referendum on the future of his country.

His appeal followed an agreement on Saturday between the newly elected Czech and Slovak leaders which called on the parliaments of both republics to prepare the peaceful break-up of the 74-year-old federation.

"Citizens have the right to express themselves on such a fundamental issue in a clearly worded question," the president said in his regular Sunday radio address to the nation.

"A referendum is the only constitutional manner in which the common state can be divided into two states." The agreement itself is ambiguous. While it does not specifically call for a referendum, it leaves that option open.

Saturday's accord signed by Mr Vaclav Klaus, the Czech winner of last month's elections, and Mr Vladimir Meciar, his Slovak counterpart, allows for the Czech and Slovak parliaments to decide the framework for dividing the republics by September 30. Their decision must then be ratified by the federal assembly.

Mr Meciar wanted a referendum in Slovakia towards the end of the year. But the Czech side, anxious to end political paralysis which would deter foreign investment and hold back economic reforms, pushed for a speedy solution. Mr Meciar has also said he will block the re-election of Mr Havel in the federal parliament on July 3 because Mr Havel's warning to voters not to support a candidate with "dictatorial tendencies" was widely seen as a thinly veiled attack on him.

Mr Havel's message yesterday appeared to be a last-ditch attempt to use his moral authority to influence political developments beyond his power.

Attempts to reach a compromise which would keep the federal state together failed after the Czech side rejected Slovak demands for a confederation of two sovereign and internationally recognised states.

Mr Klaus, leader of the Civic Democratic party (ODS) which won 30 per cent of the vote in the Czech lands, and Mr Meciar, whose Movement for a Democratic Slovakia (HZDS) won 37 per cent there, ended their negotiations by signing a political declaration and a limited programme for the new interim federal government.

The Civic Democratic party said it "does not consider the confederation of two sovereign states as one common state ... and prefers the constitutional separation of the current state to this confederation".

The programme of the federal government states that "its mandate is limited in time", and that "it must prepare the conditions for the functioning of two sovereign and internationally recognised states".

The new federal government will be cut from 16 ministries to five, including economics, finance, defence, foreign affairs and interior. Other functions are to be transferred to the governments of each republic. Talks between the ODS and HZDS will continue on nominating the federal government's new members.

A velvet divorce, Page 11

UK plan for enlargement of EC likely to be opposed

By Andrew Hill in Brussels

BRITAIN'S AIM to speed up enlargement of the European Community is likely to be thwarted by other member states which insist that the Maastricht treaty and the EC budget increase should be approved first.

Britain would like a symbolic start to negotiations with Austria, Switzerland, Sweden and Finland – all members of the European Free Trade Association (Efta) – before the end of its six-month presidency, beginning on July 1. It believes this would spur ratification of Maastricht.

But a majority of foreign ministers meeting in Luxembourg on Saturday to prepare next weekend's Lisbon summit decided that negotiations should not begin until the treaty's ratification was complete, and an acceptable financial package agreed.

Both outcomes are still uncertain, in spite of relief among ministers that the Irish ignored Denmark's rejection of the treaty and voted Yes to Maastricht in last Thursday's referendum.

Mr David Andrews, the Irish foreign minister, and his Spanish counterpart, Mr Carlos Westendorp, cut through Saturday's euphoria over the Irish vote to reassert their conviction that the European Commission's 1993-97 budget proposals were the only acceptable way of encouraging economic convergence between rich and poor EC members.

The poorer countries were unhappy about a possible compromise which would spread EC revenue increases over seven rather than five years.

That has sown the seeds for a fierce debate between EC leaders in Lisbon, although foreign ministers confirmed that the final decision on funding the Community would not be taken until December's Edinburgh summit. They also outlined the likely outcome of summit discussions on other issues:

● Enlargement: EC leaders will probably ask the Commission to prepare a mandate for negotiation with the four Efta applicants and will issue a statement to soften the blow for those countries still on the waiting list – Turkey, Cyprus, Malta, Poland, Hungary and Czechoslovakia.

● Subsidiarity – that is, the principle that the Community should only concern itself with issues which cannot be better dealt with at national level. Mr Jacques Delors, the Commission president, who was shaken by Danish citizens' criticism three weeks ago of an over-centralised EC, told ministers there were areas where EC involvement could be scaled down. The Lisbon summit is expected to produce a declaration reaffirming the EC's commitment to the principle.

Ministers also rallied round a paper prepared by the Benelux countries which restated the smaller EC countries' fears that they might be pushed aside by changes in the management of an enlarged Community. Member states have agreed on no institutional changes before 1996. The Benelux countries said large member states would have to accept "a certain over-representation" of smaller countries in the Commission, Council of Ministers and Parliament.

● British and German foreign ministers confirmed that London and Frankfurt were still possible sites for the European Central Bank. The siting of the bank is likely to be discussed at Lisbon.

Editorial comment, Page 10

Wellcome scales back share offer to under £3bn

By Roland Rudd in London

WELLCOME, the UK drugs company, will today be advised to keep the size of its planned international share offer at the lower end of expectations. As a result, the offer may seek to raise between £2bn ($3.7bn) to £3bn, rather than a possible £4bn.

While Wellcome rejects any comparison between itself and the GPA Group, the Irish aircraft leasing company which was forced last week to abandon an $800m international share offer because of poor demand, the UK group's advisers are determined to avoid being over-confident by offering too many shares.

Wellcome Trust, the charitable body which owns 73.6 per cent of Wellcome, has said it planned to reduce its holding by selling between 25 per cent and 48.6 per cent of the company's shares.

Robert Fleming, the UK merchant bank which is global co-ordinator for the Wellcome sale, will today advise the company to adopt a cautious approach.

Mr Laurence Banks, deputy chairman of Robert Fleming, said yesterday: "We are moving towards the lower end of what the trust has said it is planning to sell. One thing we are not going to do is to announce the sale of 48.6 per cent."

Under the terms of issue, it could be increased by another 10 per cent should demand warrant it. Mr Banks added: "It is better to build up the size of the issue than to be over-confident."

At today's meeting of lead managers, brokers to the sale, which have gauged interest from around the world, will report encouraging signs from institutional shareholders.

But one broker explained: "GPA's advisers also expressed interest at this stage which obviously makes one nervous. I firmly believe the expression of intent to buy from institutional shareholders is serious but it would be wrong to be over-confident and issue too many shares."

As a secondary offering, Wellcome is being priced against an existing share quote. GPA's pricing was more difficult.

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Stags at bay, Page 14

Austria	Sch30	Hungary	Ft182	Malta	Lm0.50	S.Arabia	SR9.00		
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10		
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech.	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50		
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000		
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L8000		
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 18,000	UAE	Dh9.00		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es180				
Greece	Dr250	Lux	LFr60	Qatar	QR10.00				

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Ministers discuss deregulation proposals today

EC may thrash out airline deal

By Andrew Hill in Brussels and Daniel Green in London

A COMPROMISE over European airline deregulation could be thrashed out today in Luxembourg, where EC transport ministers are meeting to discuss the European Commission's third package of air liberalisation proposals.

Free marketeers, such as Britain, the Netherlands and Denmark, will press for airlines to be able to fly within and between any member states and to charge any fare, subject to controls on predatory or exorbitant pricing.

However they will face resistance from Germany, France and southern member states, which want to delay full liberalisation.

Mr John MacGregor, the UK transport minister, said on Friday he wanted the changes to be implemented "as soon as possible". He said a breakthrough was possible after eight years of debate: "We are on the point of achieving very significant progress."

Under the compromise proposals to be debated today, airlines from one member state would be allowed to offer domestic services in another country as part of a longer route from January 1 1993.

The UK is hoping the market will be opened to full cabotage – with airlines allowed to compete directly on any route within the EC – just 12 months later. France, Germany, Portugal Spain and Italy want a transition period of up to six years.

"The principle is that we would like to have a progressive opening, with safeguards [to prevent damage to the environment, congestion and unfair competition with rail and road services]," said a French official.

The prospect of a long transition period has been attacked by British Airways, the largest of Europe's privately owned airlines and a staunch supporter of liberalisation. This could "seriously jeopardise the planned creation of a European free market in air transport", said Sir Colin Marshall, BA's deputy chairman and chief executive.

Mr Karel Van Miert, the EC transport commissioner, would be happy with a three or four-year transition period. However a spokesman said he wanted "to be absolutely sure that after that period there will be full liberalisation of cabotage except where safeguards apply."

During their two-day meeting, ministers will also consider similar compromises freeing up freight transport by road and water in the EC.

France brings Maastricht treaty congress forward

By Alice Rawsthorn in Paris

FRENCH President François Mitterrand has brought forward the parliamentary congress to complete the constitutional reforms required to ratify the Maastricht treaty by six days to tomorrow. Agreement at the congress would provide a boost for pro-Maastricht sentiment on the eve of the European summit.

The congress, a joint sitting of both parliamentary houses, the National Assembly and the Senate, needs to deliver a three-fifths majority in favour of the necessary constitutional changes. France is to hold a referendum on the treaty in the autumn.

President Mitterrand, who maintains that France must champion the Maastricht cause within Europe, decided to bring the congress forward from June 29 after the National Assembly on Friday delivered a decisive vote in favour of the proposed reform.

However, the French president's initiative may be marred by the militant farmers, who are threatening to encircle Paris and blockade Versailles, the venue for the congress, tomorrow as part of their protests at EC farm policy.

The only piece of good news for the French president on the industrial relations front was that Action-Santé, which represents France's health workers, has decided to postpone its proposed day of action from tomorrow until the autumn.

● EC Commission President Jacques Delors yesterday urged French farmers to accept reforms of EC agriculture policy, saying it would be a catastrophe if France failed to go along with them, Reuter reports from Paris.

Mr Delors said the price cuts would not affect farmers' livelihoods because they would be compensated with direct grants.

Venezuela opens up oil sector

By Joe Mann in Caracas

THE Venezuelan government has opened the door to private investment in the country's oil industry for the first time since the petroleum sector was nationalised in 1976.

Five oil companies, including Royal Dutch Shell, won bids to develop five groups of inactive oilfields. They are due to invest $480m in the oilfields by 1996 and a total of $720m over the next decade.

Shell was one of the international concerns whose Venezuelan assets were nationalised 16 years ago.

Other winning companies were Teikoku Oil of Japan, Benton Oil & Gas of the US, and two Venezuelan companies, Vincler and Lingoteras. Sixteen Venezuelan and international groups presented tenders on the operating contracts.

BP was one of the international companies entering a bid but it did not win.

In announcing the winners, Mr Alirio Parra, Venezuela's Minister of energy and mines, said that the companies would sign 20-year contracts in July under which they would develop the inactive fields, produce crude oil and turn it over to subsidiaries of Venezuela's national oil company, PDVSA. The contractors will receive compensation in terms of the volume of oil they produce.

Taiwan agrees to restrain sales of machine tools in US

By Nancy Dunne in Washington

TAIWAN, under considerable US pressure, has agreed to two more years of limits on its machine tool exports to the US, with the Bush administration promising the "voluntary" restraints will be phased out by 1993.

Japan bowed to similar US pressure for a two-year extension of the five-year quotas in April.

In 1986, both countries agreed to limit their exports to their 1981 market share in several categories of machine tools.

The Association for Manufacturing Technology, which won the administration's support for an extension on grounds of national security, said the new pact would give additional breathing space to the industry and its workers.

Mrs Carla Hills, the US trade representative, said the understanding would allow US companies "to complete necessary programmes for advancing US national security interests while providing a gradual return to market-determined competition".

The new agreement with Taiwan will allow machining centres, lathes and milling machine imports to be raised over their current levels by 29 units in 1992 and 281 units next year.

The US industry claims large gains during its period of protection. Its exports rose from $600m in 1986 to $1.1bn in 1990 and 1991. Companies affected have increased their annual investment by 78 per cent.

Undeclared presidential candidate Ross Perot concludes a Boston campaign rally

Perot vs Bush, hawk vs rabbit

By George Graham in Washington

IT HAS long been evident that there is little love lost between President George Bush and Mr Ross Perot, the Texas billionaire challenging him for the presidency.

But the depth and age of their feud became clearer this weekend.

Mr Perot has recently refrained from direct abuse of Mr Bush, although he has joined the chorus ridiculing Vice-President Dan Quayle's inability to spell "potato".

But in a conversation six years ago that appears destined to enter the folklore of the 1992 presidential campaign, he apparently called the then Vice President Bush a "rabbit".

According to the Washington Post, Mr Perot's hostility was sparked by his obsession with the fate of American servicemen missing in Vietnam.

Dissatisfied with Mr Bush's lukewarm support for his efforts to locate US prisoners of war, Mr Perot launched, the Post reports, a series of unsuccessful investigations designed to implicate Mr Bush in tax and investment scandals, as well as in the Iran-Contra and October Surprise affairs.

"This world is full of lions and tigers and rabbits, and you're a rabbit," he told Mr Bush, according to the Post.

The episode appears unlikely to do much to change voters' attitudes. Those who find Mr Bush indecisive will think the "rabbit" gibe apposite, while those who worry about Mr Perot's respect for the US constitution will find fresh evidence in his habit of unleashing investigators on anyone who crosses him.

US to abolish levy on defence equipment

By George Graham

THE Bush administration has decided to abolish a levy on foreign sales of defence equipment or civilian goods using technology developed by the defence industry.

The levy, known as recoupment fees, is designed to recover some of the costs incurred by the US government for the development and production of defence equipment.

Originally charged only on government-to-government sales of important defence equipment, it has been extended progressively to commercial goods having as little as 10 per cent in common with an original defence product.

Abolishing recoupment fees is expected to help US defence manufacturers compete in overseas arms markets, and is also intended to benefit defence and technology industries by reducing the amount of paperwork it has to do to enable the Pentagon to calculate the recoupment fees.

The total cost of the fees is uncertain, but the AIA calculated in 1990 that the paperwork needed to comply with recoupment rules alone would cost $42m a year.

However, the abolition of recoupment fees could also revive an argument with the European Community over the Airbus passenger aircraft company.

While the EC agreed to limit direct subsidies to Airbus, an end to recoupment would call into question the US's commitment to limit indirect subsidies to aircraft makers through defence contracts.

W Europe new car sales down 4.9%

By Kevin Done, Motor Industry Correspondent

NEW car sales in west Europe fell by 4.9 per cent in May, the sharpest monthly fall this year, chiefly because of an accelerating decline in new car demand in Germany.

According to industry estimates new car sales in west Europe in May fell to 1.19m from 1.25m in the same month a year ago.

Sales last month were lower than a year ago in 10 of 17 markets across west Europe, with declines most significantly in Germany and France.

New car sales in Germany are estimated to have fallen by 16.1 per cent last month to 359,000. Demand remained strong in Italy, however, with a rise in new car sales of 6.4 per cent, while sales increased by 6.2 per cent in Spain and 1.4 per cent in the UK.

Hopes for the start of a significant recovery in demand in the UK had been kindled by the 9.1 per cent jump in new car registrations in April, the first monthly year-on-year increase in 30 months.

Sales were only marginally higher in May, however, and car makers are becoming concerned that their forecasts for higher UK sales for the full year will soon have to be reduced, if the predicted recovery remains elusive.

In the first five months of the year total west European new car sales were marginally lower than a year ago with a decline of 0.1 per cent to 6.221m. Sales were lower in eight and higher in nine markets across west Europe.

The Volkswagen group of Germany, which includes Audi, SEAT and Skoda, has established an unprecedented lead over its main rivals and captured 17.5 per cent of west European new car sales in the first five months, with a 4.9 per cent jump in volume.

The competitive gap has widened thanks to the decline of the Fiat group of Italy.

Ford of the US, which was briefly European market leader in the mid-1980s, has fallen back to fifth place and suffered a 5.5 per cent fall in sales (excluding Jaguar) in the first five months.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-May 1992

	Volume (Units)	Volume Change(%)	Share (%) Jan-May 92	Share (%) Jan-May 91
TOTAL MARKET	6,221,000	−0.1	100.0	100.0
MANUFACTURERS:				
Volkswagen* (incl. Audi,SEAT&Skoda)	1,090,000	+4.9	17.5	16.7
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	785,000	−4.3	12.6	13.2
General Motors (Opel/Vauxhall, US# & Saab)	776,000	−1.8	12.5	12.7
– Opel/Vauxhall	745,000	−1.5	12.0	12.1
– Saab**	23,000	−2.1	0.4	0.4
Peugeot (incl. Citroen)	736,000	+4.2	11.8	11.3
Ford (Europe, US# & Jaguar)	714,000	−5.6	11.5	12.1
– Ford Europe	708,000	−5.5	11.4	12.0
– Jaguar	5,000	−18.2	0.1	0.1
Renault††	657,000	+5.8	10.6	10.0
Nissan	202,000	−1.0	3.2	3.3
BMW	200,000	+15.5	3.2	2.8
Mercedes-Benz	194,000	−5.9	3.1	3.3
Toyota	147,000	−9.5	2.4	2.6
Rover†	133,000	−17.8	2.1	2.8
Mazda	125,000	−6.6	2.0	2.1
Volvo††	99,000	+5.2	1.6	1.5
Honda†	79,000	+5.1	1.3	1.2
Mitsubishi	73,000	−16.0	1.2	1.4
Total Japanese	727,000	−4.0	11.7	12.2
MARKETS:				
Germany	1,834,000	−7.3	29.5	31.7
Italy	1,174,000	+4.8	18.9	18.0
France	851,000	−1.0	13.7	13.8
United Kingdom	666,000	−5.3	10.7	11.3
Spain	450,000	+21.3	7.2	6.0

#Cars imported from US and sold in western Europe.
*VW holds 31 per cent and management control of Skoda.
**GM holds 50 per cent and management control of Saab Automobile.
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.
Source : Industry estimates

National barriers chipped away

Semiconductor makers ahead of a trend, writes Michiyo Nakamoto

THE EUROPEAN MARKET

THE end-1992 date for completion of Europe's "single market" is still more than six months away. But for Europe's semiconductor manufacturers, it has virtually arrived already.

Motorola, the US communications and electronics group, is paving the way towards a single European pricing system for the network of distributors through which it sells semiconductors. It also intends to bring in common payment terms as a way of unifying sales conditions across Europe.

"The challenge is to deal with distributors in one currency, to allow them to respond to customers in different countries, and to make that channel to customers more efficient," says Mr Barry Waite, general manager of Motorola's European semiconductor group.

"If Europe intends to have a competitive semiconductor industry, it has to be competitive not only in design, manufacturing and technology, but also in the way it takes things to the market," Mr Waite adds.

Semiconductor manufacturers mostly sell their products directly to large industrial users in such areas as telecommunications, consumer electronics and the automotive sector. Sales through distribution intermediaries however account for roughly 20 per cent of the Ecu10bn ($13.5bn) a year turnover of the European semiconductor market.

Motorola has been bringing in single pricing step by step. It has been gradually aligning prices for such products as integrated circuits and memory chips over the last two years.

Apart from single pricing, Motorola plans to introduce invoicing in the currency of the distributor's choice, including Ecus.

It is also proposing to provide Europe-wide technical and commercial support. For example, a distributor which buys products in the UK could still count on local technical support from Motorola if the goods were then shipped to Germany.

These changes will bring the European distribution market more in line with the US and Japan, where a single currency and market enable suppliers to operate off a single price list and maintain central stocks.

Other semiconductor manufacturers agree that the trend towards a single market is here to stay. "It's a developing road map," says Mr Ken Sanders, managing director of Texas Instruments in the UK.

Texas Instruments has been working since 1988 on adapting its semiconductor organisation to a pan-European structure. It has a common order book that lets it move products quickly from country to country.

The shifting strategies of the semiconductor groups partly mirror the changing face of the market for distribution. The distribution sector has seen a flurry of activity as companies have established pan-European capabilities. Cross-border mergers and acquisitions have created larger distributors with activities in several European countries. For instance, the Benelux countries have recently witnessed concentration in this sector.

This trend has been a growing necessity for distributors who had seen their margins shaved by falling semiconductor prices. Additionally, distributors have been squeezed by moves among suppliers to improve their servicing of the big semiconductor users, according to Mr Jim Eastlake at Dataquest, the high technology consultancy.

One drawback is that the economies of scale which should stem from centralised warehousing and inventories have been slow to materialise.

If these economies are, in fact, to be realised by moves by such companies as Motorola, this will probably intensify the trend for concentration in the distribution sector.

The losers, then, would be the smaller distributors who stick to their local national systems. Mr Sanders of Texas Instruments, however, believes it is important to balance the European dimension in distribution with a strong local element.

"Integrated European distributors will have an advantage over non-consolidated distributors – but not over strong national champions," he says.

Subtle Doctor moves into Italy's political front line

Robert Graham on Giuliano Amato, trying to form a government in Rome

POLITICIANS rarely make the transition from backstage brains to frontline responsibility. But this is the challenge now facing Professor Giuliano Amato since he agreed last Thursday to form an Italian government.

With his glasses perched precariously on the end of his nose and his aloof air, the 54-year-old constitutional law expert has always looked more at home delivering academic lectures than giving speeches at Socialist party meetings. He talks quietly and listens silently.

After being given the unusual part-time job of Albania's chief debt negotiator last year, he shied away from publicity when most of his colleagues would have made a meal of this exotic task. The only enemies he has created are those envious of his formidable intellect, who feel he is too clever by half.

Ever since Mr Bettino Craxi, the Socialist leader, drafted him to run the prime minister's office in 1983, Prof Amato has been dubbed "Dr Sottile" (literally the "Subtle Doctor", but it also refers to his "slight" figure).

Although he subsequently held the key finance portfolio as treasury minister from 1987 to 1989 and is the deputy leader of the Socialist party, he is best known as the behind-the-scenes organiser, planner and thinker for Mr Craxi, who owed much of his success as prime minister to Mr Amato's tireless work and meticulous grasp of detail.

His experience at the Palazzo Chigi, the prime minister's office, cemented a strong mutual respect between the two and Mr Amato has remained extraordinarily loyal. He even accepted the unpleasant task of acting as special commissioner to investigate corruption in the Milan branch of the Socialist party knowing this included the affairs of Mr Craxi's son and brother-in-law. But no one questioned either his impartiality or his respect for Mr Craxi. And when Mr Craxi last week recognised the cards were stacked against his own candidature, it was he who suggested Mr Amato should stand in his place.

These links with Mr Craxi are important now for two reasons. Prof Amato needs to show that he is not a stalking horse for Mr Craxi's thwarted ambitions to acquire credibility. Second, he needs to insulate himself from the possibility that Mr Craxi and the Socialist party might be further implicated in the Milan corruption scandal, with its affect on other judicial investigations into Italian political corruption.

On the latter point, Mr Amato should be reasonably well protected. In a world of corrupt politics, his reputation is one of patent honesty.

Demonstrating his independence from Mr Craxi will be more complex. Traditionally, party bosses have sought to control the prime minister and dictate his cabinet. However, the financial plight of Italy, with rapidly deteriorating public finances and the lira under severe pressure, combined with the unprecedented weakness of the parties after the elections, has changed the rules of the game. The situation requires an emergency austerity programme, followed by electoral reform.

All the parties recognise this and accept the idea of a more "technocratic" cabinet. In essence, decisions are being forced upon Italy and Mr Amato has to execute them.

To all intents and purposes, he will be forming a government of national salvation with initially limited objectives. The fragmented nature of the new parliament is unprecedented and obliges him to operate on the basis of broad cross-party support. Otherwise the government will not last.

As it is, on the most optimistic scenarios, Prof Amato's task may be no more than to carry out essential measures ahead of an early general election in, say, 14 months.

In this situation, his curious hybrid experience as academic and politician could prove the right mix. He began his career as a university lecturer after a postgraduate degree at Columbia University in New York, but he was soon acting as a legislative adviser to the Ministry of Planning. In the late 1970s he ran the research department of CGIL, the main trades union federation, dominated by the communists – a reflection of the strong socialist roots he inherited from his civil servant father.

He stepped back into the administration, helping to reorganise the running of the cabinet office before steering a commission examining state share-holdings. He also acted as special adviser to the European Community on regional policy before standing as a Socialist deputy in 1983 for Turin.

He was once quoted as saying: "As treasury minister I am realising that everyone treats the budget like a Christmas tree from which they all feel entitled to take something." Now, he has the unpopular task of forcibly removing the hands from the Christmas tree – or, perhaps more appropriate, the till.

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Moscow sends troops to defend Russians

John Lloyd sees a significant change in policy

RUSSIAN troops for the first time engaged in combat operations against the forces of other former Soviet republics at the weekend – in one case, against troops of a fellow member of the Commonwealth of Independent States.

These conflicts mark a decisive and not easily reversible shift in Russian policy and may mark Russia's decision openly to defend its kith and kin outside its own borders.

On his arrival back in Moscow yesterday morning from his trip to the US and Canada, President Boris Yeltsin said that in the case of wars on Russian borders "we cannot remain idle... we must react to defend people and to stop the bloodshed. We have the strength to do that."

Two conflicts are of immediate concern. The first, to which Mr. Yeltsin was reacting, is in the self-declared TransDnestrian Soviet Socialist Republic. The territory, part of the Moldovan Republic, is bounded by the Dnestr River to its west and the Moldovan border with Ukraine to its east. Here, most of the population are Russian or Ukrainian: and here, for nine months, fighting has been going on between the local forces and the Moldovan National Guard.

According to the latest reports the Moldovan forces took the town of Bendery – the second centre in TransDnestr – on Saturday, but were repulsed later. Estimated casualties run into the hundreds, according to General Alexander Rutskoi, the Russian Vice President.

On Saturday, as reports came in of what seemed to be a massacre by the Moldovan forces, the Russian government went into emergency session, from which it issued a call to all army units to return fire if attacked. Yesterday, the Defence Ministry said the decision had allowed the Russian 14th army, based in TransDnestr in spite of Mr Yeltsin's promise to remove it, to defend itself.

The second conflict is in South Ossetia, a region in the north of Georgia beset by conflict since it declared autonomy from Georgia 18 months ago. In the past month, it has called for a union with North Ossetia, which would mean in effect with Russia (since North Ossetia is a Russian autonomous republic). The Russian parliament has reacted "with sympathy" to the claim.

Over the weekend, the Georgians made what appears to have been a successful assault on Tskinvali, the Ossetian capital, which was reported to be almost destroyed. On Thursday, Georgian leader Eduard Shevardnadze accused Russian helicopters of having attacked Georgian tanks – a charge which the Russians acknowledged, saying they were protecting their installations.

The relations between the Georgians and Russia have worsened suddenly in the past week. Georgian military forces attacked a Russian tank regiment in the town of Gori, and fire was returned.

In the absence of Mr Yeltsin, Gen Rutskoi – attracted to nationalist themes – went on television on Saturday night looking almost like a national leader declaring war. He said that there were hundreds of dead in both Bendery and Tskinvali, that both Mr Mircea Snegur, the Moldovan president and Mr Shevardnadze were guilty of the most "cynical" deceptions, and that "Russia will not permit a settlement of the Dnestr and South Ossetian conflicts from the position of strength. We are going to put an end to the massive extermination of the civilian population."

What this means should be clear this week.

Relaxed air – but conflict has not ended

By Chrystia Freeland in Bendery

TANKS yesterday vied with strolling families for space on the streets of Tiraspol, the beleaguered capital of the breakaway TransDnestr region, where hundreds of casualties were reported over the weekend in clashes between Russian-backed local troops and Moldovan forces.

The relaxed air even extended to the nearby town of Bendery, recaptured from Moldovan forces late on Saturday.

A few dozen exhausted volunteers from the Kirov factory in Tiraspol, part of the 150-strong rag-tag force which was in the vanguard of the assault, nibbled at strawberries, dozed in the sun and dodged machine gun fire from a Moldovan sniper on the ninth floor of an apartment overlooking their positions.

But the casual attitude of soldiers and civilians alike is no sign that the conflict is abating. An estimated 2,500 heavily-armed Moldovan troops were reported on the outskirts of Bendery last night.

The fighting over the weekend has also further alienated the TransDnestr from Moldova. And with open Russian military support, the sliver of land on the right bank of the Dnestr with less than a million inhabitants is now grimly confident that it can beat back the Moldovans.

"It will be a real war," warns Mr Veleri Litskoi, the secretary of state of the breakaway republic. "But even with the support of the Romanian army Moldova cannot defeat us. Together with the 14th Army our forces are 200 per cent adequate."

Mr Litskoi believes the 10,000-20,000 well-trained 14th Army troops based in Trans-Dnestr, many of them locals, together with the region's Republican Guard, which is commanded by 14th Army officers, can repel any further attacks even if Romania throws its support behind Moldova, with which it has close ethnic ties.

Some of the weapons captured from the Moldovan troops carried Romanian markings, an indication that Bucharest is already supplying its neighbour. The Romanian Foreign Ministry added moral support last night by strongly objecting to Russia's decision to allow the 14th Army to operate alongside the TransDnestrians.

Russian reports say more than 300 died in the weekend clashes. No independent corroboration of the figure was possible, but Bendery's blood-soaked battlefield was testimony to the intensity of the fighting.

Yeltsin seeking special IMF deal

By John Lloyd in Moscow

PRESIDENT Boris Yeltsin of Russia is using the acclaim he received from last week's deal on nuclear arms cuts with the US to persuade foreign governments to press the International Monetary Fund to treat Russia as a special case. This would mean allowing it access to \$24bn (£12.9bn) in aid even though its economic reform programme does not observe IMF conditions.

Mr Yeltsin told reporters in Ottawa, Canada, on Saturday that he would try to persuade the leaders of the Group of Seven industrial countries, whom he will meet in Munich early next month, to "throw their weight behind persuading the IMF into opening the \$24bn credit line".

He said that because of the effects of communism and the consequent difficulty of the transition to democracy and free markets, "the standard IMF project should not be applied to us to the letter".

Mr Yeltsin's statement sets the stage for an unprecedented struggle between the IMF, whose officials are concluding talks with government ministers in Moscow, and the Russian government – with the G7 leaders invited to take one side or another.

The talks between the Fund and the Russian government are said to be going badly, and an agreement before the G7 meeting with Mr Yeltsin in Munich on July 8 is unlikely.

The IMF wants to apply the same criteria to Russia as it does to other member countries. It is thus holding Russia to account for rising budget deficits, for its decision to hold down energy prices, for the Rbs2 trillion (million million) debt which state enterprises have accumulated and for the non-payment of principal and interest on its more than \$60bn foreign debt.

Though Mr Yeltsin proclaimed his commitment to market reform on his trip to the US and Canada last week, the government sends a different message in Moscow, acknowledging that it is moderating its policies in response to public and industrial pressure.

● IMF officials flew in to Budapest yesterday for crucial talks to bring Hungary's government finances under control, Nicholas Denton writes from Budapest.

Hungary's missing of its IMF targets sets the scene for the two sides' most difficult negotiations since democratic elections in 1990. It also puts at risk Hungary's reputation as eastern Europe's most sure-footed reformer.

Rivals 'grab for land' to split Bosnia-Hercegovina between them

Croats and Serbs near all-out war

By Judy Dempsey in Belgrade

CROATIAN and Serb forces are preparing for an all-out war in Bosnia-Hercegovina aimed at dividing the independent republic between the two sides, western military attachés confirmed yesterday.

The diplomats said that, despite attempts by the United Nations to try to re-open Sarajevo airport, Croatia and Serbia were now engaged in a "grab for land throughout Bosnia".

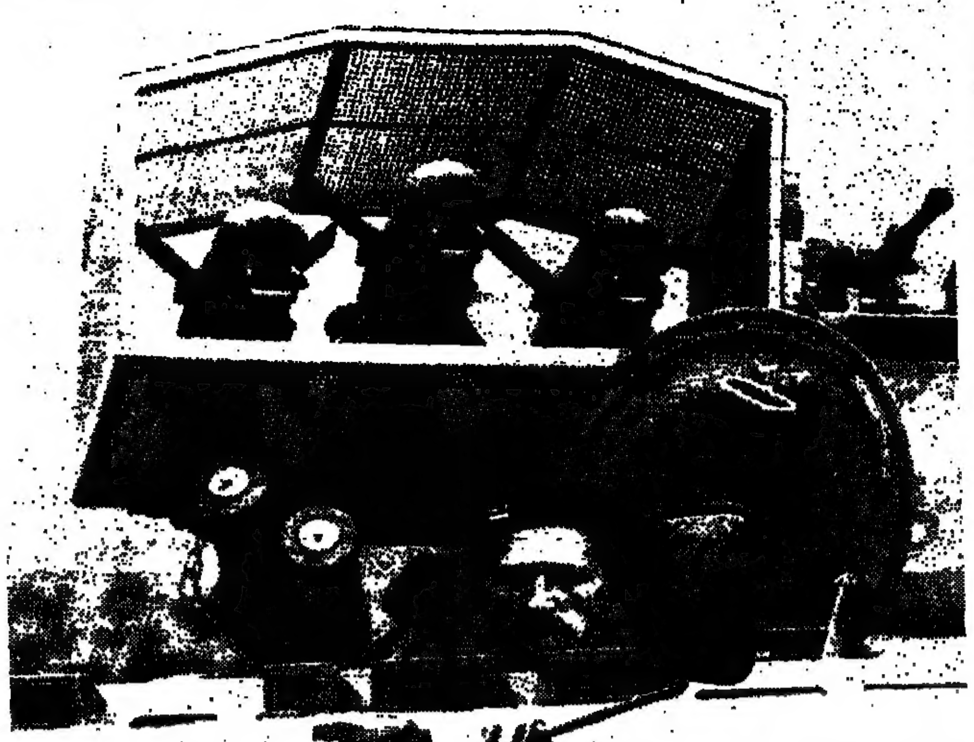
Croatia wants to control a swathe of territory in the largely Croat-populated region of western Hercegovina, west Bosnia, as well as the north of the republic, they said.

Croatian control of the north of Bosnia is designed to prevent Serb units from forming a corridor between Serbia and the self-proclaimed Serb-inhabited republic of Krajina, south-western Croatia.

The military attachés added that Croatian forces, which have direct contacts with Croatian President Franjo Tudjman, had yesterday consolidated their positions in many parts of western Hercegovina.

"The speed in which they [the Croats] are moving, both across the north of Bosnia, and west of Bosnia, is both remarkable and very dangerous," one diplomat said. He added that the recent military alliance between Bosnian President Alija Izetbegovic and Croatia legitimised forces from Croatia on Bosnian territory.

At the weekend, the Bosnian presidency declared a state of war against "the aggressor, Serbia", but made no mention of Croat advances in Hercegovina.



A Serb militiaman peers from an armoured personnel carrier in Tjentiste in eastern Bosnia, near the Serbian border

The Croatian offensive from the west is being matched by attempts by Serb irregulars, and Serbia's proxy army in Bosnia, to consolidate their position in the eastern part of Bosnia, as well as establishing a "green line" dividing Sarajevo, the Bosnian capital.

Diplomats said the determination by the Serb irregulars to create this line could undermine attempts by the United Nations officials to set any realistic timetable for re-opening Sarajevo airport.

The UN yesterday announced another ceasefire after it suspended operations and negotiations to de-militarise the airport, now held by both Serb irregulars and Bosnia's Territorial Defence forces, under which Sarajevo's Moslem, Serb, and Croat communities are grouped.

Apart from sporadic shooting, the 48-hour truce appeared to be holding.

The blockade on the airport has prevented the airlift of food to the 300,000 starving people of the city, who have been besieged by Serb irregulars for the past 79 days.

"The UN is desperately trying to enforce this ceasefire, but I wonder if either side really wants it now," a UN official said.

Negotiation likely to be Mandela's only choice

Philip Gawith on the political aftermath of a week of confrontation

WE WANT arms now, declared the slogan on the placard greeting Mr Nelson Mandela, president of the African National Congress, as he arrived to address a township rally yesterday at the end of a week of confrontation and violence that has stunned South Africa.

At a dusty football ground at Evaton, 25 miles south of Johannesburg, the ANC leader was left in no doubt about the anger of the 15,000-strong, predominantly youthful, crowd.

"Mandela", declared another poster, "give us permission to kill our enemies". And as the ANC president asked what the party should do, a forest of arms went up, with fists clenched and index finger curled, simulating the trigger action of a gun.

It would have been surprising if Mr Mandela had responded to the anger with anything other than the announcement that he was suspending bilateral talks with the government designed to end last May's impasse in constitutional negotiations.

It was all but inevitable that the stalemate at the Convention for a Democratic South Africa (Codesa), the multi-party negotiating forum, should be followed by confrontation in the townships.

More than two years after Mr Mandela's release the ANC and its allies seemed as far away as ever from their main objective; running the government of South Africa. In the eyes of many of their impatient and expectant followers the political changes that have taken place are no more than cosmetic. And as it became apparent at Codesa that the government was determined to resist ANC demands for a majority rule constitution and insist on what amounts to a white veto, it was only a matter of time before the frustrations turned into violence.

But for all the anger it is hard to see that Mr Mandela has any choice but eventually to return to the negotiating table: the ANC is outgunned by the security forces, and trade sanctions are a dead letter.

And ANC talk of the "Leipzig option" – overwhelming the government by putting millions of demonstrators on the street – is treated sceptically by government. Officials acknowledge the capacity of the ANC and trade unions to conduct a successful one- or two-day stay-away, but doubt that this or any other "mass action" can be sustained for much longer.

For President F W de Klerk, however, having the upper hand – for the time being at least – would be a Pyrrhic victory.

Only peace and stability, his officials concede, can bring about the economic recovery the country desperately needs.

Nevertheless, the government is open to charges of complacency or over-confidence, which events of the past week will have shaken. The ANC's accusation that the government would respond differently if whites were being slaughtered is undeniable.

The failure to seal off hostels for migrant workers, often located in the heart of troubled areas, is one key example of apparent indifference.

According to Mr Mandela, Mr de Klerk promised in May last year to phase out hostels, replacing them with family accommodation, and to fence them off in the meantime. Nothing has been done. ANC criticism that the government has failed to ban so-called traditional weapons is also valid.

While no one forecasts an early resumption of talks, it may well be that the minds of the main protagonists will have been concentrated by a week which contained all the ingredients of the country's nightmare scenario, in which industrial action, the bloody rivalry between the ANC and the mainly Zulu Inkatha Freedom party, and trigger-happy South African police combine to tip the country towards ungovernability.

Japan risks losing lead in industrial competitiveness

By Frances Williams in Geneva

JAPAN has maintained its world lead in industrial competitiveness for the seventh consecutive year but, for the first time, there are doubts about the future, according to the annual World Competitiveness Report published today by the International Institute for Management Development (IMD) and the World Economic Forum.

Germany takes second place in the competitiveness rankings from the US, which has slipped to fifth. Some way behind Germany comes its previous rival, Switzerland, in third place, followed rather surprisingly by Denmark, which has boosted its position to fourth from eighth in 1991.

The rankings of 22 industrialised and 14 developing countries are based on more than 330 criteria grouped into eight competitiveness factors. Hard statistical data are supplemented by the results of an international survey of executives who evaluate their country's ability to compete on world markets. This year, some 3,300 questionnaires were returned, out of 18,000 mailed.

The report suggests a weakening of Japanese competitiveness from previous years. Japan continues to lead on factors such as the strength of the domestic economy, management, research and development and education. But its scores on integration into the world economy, government policies, finance (following turmoil in Japanese financial markets) and the attitude of young people to life and work have slipped.

Germany too could face future problems of competitiveness. The report says German companies may increasingly invest abroad as the advantages of low wages in eastern Germany are eroded, so reducing the country's strength in foreign trade.

At the same time, the report notes that world recession has favoured countries such as Japan and Germany which excel in producing high-quality goods with a superior price-quality ratio.

World Competitiveness Report 1992 (695pp, SFr700), available from Ms Hoa Vu-Thi, IMD, PO Box 915, CH-1001 Lausanne, Switzerland, fax 4121-618 0707.

Poll challenges role of Israeli territories

By Hugh Carnegy in Jerusalem

A LARGE majority of former Israeli generals and senior intelligence officers believe Israel could safely give up the occupied territories, according to a survey published yesterday.

The survey, which comes two days before a general election in which the ruling Likud party is defending its refusal to yield any territory in Middle East peace talks, largely endorsed the opposition Labour party's stance that Israel should be prepared to give up much of the occupied West Bank and Gaza Strip in return for peace and tough security measures.

Government supporters dismissed the poll, carried out by an independent organisation, as propaganda by the group of retired officers which commissioned it. But it appeared to undermine Likud's insistence that, in addition to ideological claims to the land, the occupied territories are a vital component in Israel's security.

The poll of former generals showed 68 per cent were prepared to give up the West Bank and Gaza and 71 per cent "a substantial part" of the Golan Heights, given appropriate security arrangements.

In another awkward issue for Likud, the government yesterday reversed an earlier announcement that members of the Palestinian negotiating team at the Middle East talks who held a public meeting last week with Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, in contravention of Israeli law would be arrested on their return.

A police spokesman said only that they would be investigated, apparently acknowledging that arrest would spark powerful international pressure to release them.

Loss of direction, Page 10

Khieu Samphan: could increase isolation

Boycott threat over Cambodia talks

By Steven Butler in Tokyo

A 32-nation ministerial conference on rebuilding Cambodia is due to open in Tokyo today amid conflicting reports about whether Mr Khieu Samphan, leader of the communist Khmer Rouge, will boycott the meetings.

Hopes that the Khmer Rouge had dropped its opposition to the meeting, where pledges of nearly $600m for the reconstruction of Cambodia are being sought, were raised on Saturday when Mr Khieu unexpectedly arrived in Tokyo.

However, Mr Khieu told reporters after a meeting of the country's Supreme National Council (SNC), which groups all four main Cambodian factions, that he would not attend. Subsequently, Kyodo News Service quoted a senior Foreign Ministry official as saying that he would.

A boycott of the meeting by Mr Khieu would leave the Khmer Rouge even more isolated, as its refusal to participate in the disarmament phase of a UN-brokered peace settlement has already cast doubt on the future of the country.

The Khmer Rouge has refused to lay down arms until Vietnamese troops have left the country. Vietnam says its troops have all done so.

Today's conference is a centrepiece of Japan's efforts to play a larger role in seeking a solution to the Cambodian conflict. Tokyo is expected to pledge $150m to the effort and the government is looking at whether it should send troops from its self-defence forces to Cambodia.

Prince Norodom Sihanouk, president of the SNC, said he would like troops from Japan to construct roads and bridges in his country under the control of the United Nations Transitional Authority in Cambodia.

War warning as Ethiopia holds election

ETHIOPIANS voted yesterday in the first democratic election in Africa's oldest independent nation, but a powerful political faction warned that alleged irregularities could spark a new civil war, Reuter reports from Addis Ababa.

About 33m Ethiopians were eligible to vote in the poll for a federal-style government.

Mr Lencho Letta, vice-president of the Oromo Liberation Front, which has boycotted the elections, said soon after the polls opened that the OLF might withdraw from the transitional national assembly. "Renewed civil war is inevitable unless the situation improves," he said.

The OLF announced its boycott last week, alleging its offices had been closed and its officials arrested by the Ethiopian People's Revolutionary Democratic Front.

The EPRDF has dominated the interim government in Addis Ababa.

Grindlays defends India action

THE Reserve Bank of India has directed ANZ Grindlays, the Australian-owned bank, to make provision of Rs4.05bn ($144m) for losses incurred in the country's Rs30.8bn securities market scandal, writes R.C. Murthy in Bombay.

The central bank rejected Grindlays' contention that it had done nothing wrong in crediting five cheques made out to the bank to the personal account of disgraced broker Harshad Mehta.

In a statement to the reserve bank after meeting its deputy governor, Mr Bob Edgar, Grindlays manager in India, defended as "normal practice" the crediting of cheques to Mr Mehta's account.

The reserve bank stepped up pressure on Grindlays after the State Bank of India paid Rs7.07bn last Tuesday to the National Housing Bank for losses in similar transactions.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

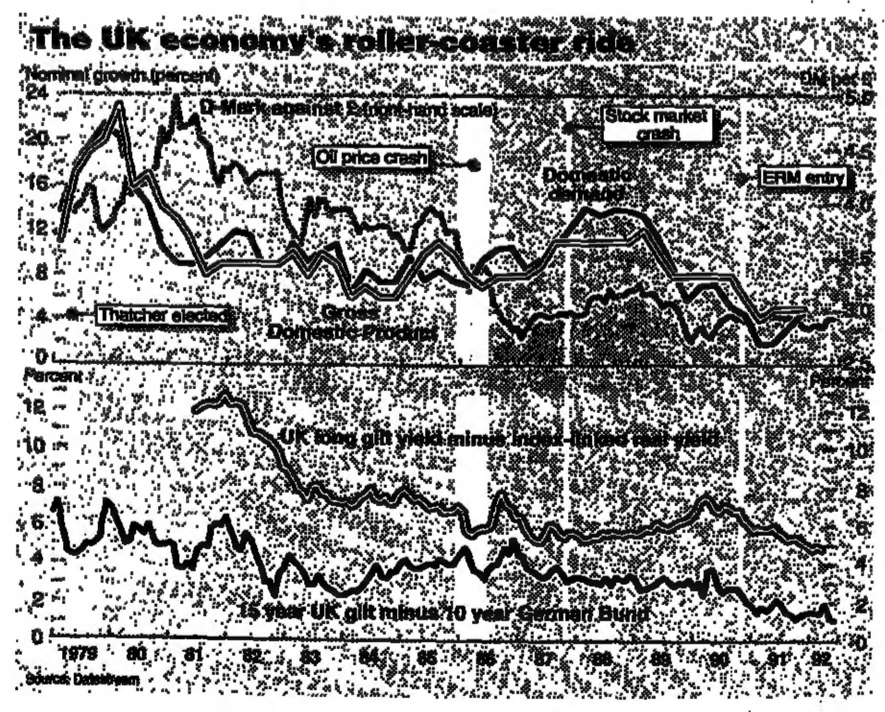
This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	JAPAN Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	9.2	9.1	8.00	10.59	n.a.	5.0	8.4	6.62	6.51	n.a.
1986	12.3	8.3	6.49	7.67	3.43	6.9	8.7	5.12	5.35	0.84
1987	11.6	6.5	6.82	8.39	3.12	10.5	10.4	4.15	4.64	0.55
1988	4.3	5.4	7.65	8.84	3.61	8.4	11.2	4.42	4.77	0.54
1989	0.9	3.8	8.99	8.49	3.43	4.1	9.9	5.31	5.22	0.48
1990	3.7	5.4	8.06	8.54	3.60	2.6	11.7	7.62	6.91	0.65
1991	6.0	3.2	5.87	7.86	3.21	5.2	3.6	7.21	6.37	0.75
2nd qtr.1991	5.3	3.6	6.03	8.12	3.16	3.3	3.7	7.70	6.66	0.71
3rd qtr.1991	6.1	2.8	5.79	7.95	3.10	6.6	2.8	7.11	6.44	0.76
4th qtr.1991	8.0	2.8	5.00	7.34	3.09	8.5	2.2	6.11	5.88	0.76
1st qtr.1992	11.0	2.9	4.17	7.29	2.90	7.4	1.7	5.01	5.49	0.86
June 1991	5.9	3.6	6.10	8.27	3.17	6.6	3.7	7.83	6.73	0.72
July	6.2	3.2	6.05	8.27	3.14	6.1	3.4	7.46	6.67	0.75
August	6.2	2.8	5.72	7.90	3.07	7.2	2.7	7.21	6.46	0.77
September	6.0	2.4	5.58	7.88	3.08	6.4	2.2	6.64	6.16	0.76
October	7.1	2.5	5.34	7.62	3.09	7.5	2.1	6.30	5.96	0.72
November	8.2	2.9	4.98	7.41	3.09	9.3	2.4	6.09	5.96	0.75
December	8.7	3.0	4.67	7.08	3.08	8.8	2.0	5.94	5.72	0.81
January 1992	10.2	3.1	4.09	7.02	2.87	7.8	1.5	5.15	5.45	0.83
February	11.3	3.1	4.11	7.33	2.90	7.4	1.6	5.05	5.53	0.87
March	11.5	2.6	4.29	7.52	2.94	7.1	1.8	4.84	5.51	0.93
April	11.9	2.1	4.04	7.47	2.97	7.4	1.6	4.52	5.68	1.06
May	12.2	1.8	3.88	7.39	2.95			4.59	5.66	1.00

	GERMANY Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	FRANCE Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	4.4	5.1	5.45	6.94	n.a.	6.2	7.4	10.03	11.74	n.a.
1986	9.9	8.3	4.64	5.90	1.79	8.9	6.8	7.79	8.74	2.65
1987	9.0	7.3	4.03	6.14	2.21	4.1	10.0	8.26	9.46	2.75
1988	9.8	6.4	4.34	6.46	2.61	4.0	8.6	7.94	9.08	3.69
1989	6.3	5.7	7.11	6.94	2.22	8.0	9.5	9.39	8.79	2.88
1990	4.5	4.5	8.49	8.71	2.11	3.6	9.0	10.32	9.92	3.19
1991	6.2	5.6	9.25	8.44	2.36	−5.6	2.6	9.62	9.03	3.56
2nd qtr.1991	5.0	5.8	9.11	8.37	2.25	−0.3	6.4	9.43	8.95	3.48
3rd qtr.1991	5.3	5.8	9.24	8.52	2.31	−2.1	5.4	9.54	9.05	3.60
4th qtr.1991	4.2	5.6	9.47	8.29	2.45	−5.6	2.6	9.56	8.80	3.61
1st qtr.1992	4.5	6.6	9.62	7.91	2.31	−1.6	3.4	10.05	8.46	3.40
June 1991	5.1	5.4	9.06	8.34	2.18	−0.3	6.4	9.72	9.11	3.53
July	5.9	5.8	9.15	8.58	2.29	−0.5	6.4	9.59	9.16	3.69
August	4.8	5.9	9.31	8.54	2.32	2.7	6.9	9.59	9.09	3.62
September	5.0	5.6	9.27	8.42	2.31	−2.2	6.4	9.43	8.86	3.47
October	4.8	6.3	9.36	8.31	2.41	−3.1	4.2	9.32	8.76	3.50
November	4.1	5.4	9.43	8.32	2.42	1.0	4.9	9.56	8.62	3.56
December	3.7	6.1	9.61	8.24	2.52	−5.6	2.6	10.10	8.81	3.77
January 1992	3.9	6.3	9.54	7.91	2.39	−2.6	3.6	9.69	8.40	3.49
February	4.1	6.5	9.61	7.88	2.30	−2.0	3.7	10.06	8.44	3.40
March	4.9	7.0	9.70	7.94	2.25	−1.6	3.4	10.12	8.58	3.31
April	7.0	7.5	9.75	7.94	2.26	−2.0	3.6	10.04	8.67	3.37
May			9.79	7.96	2.26			9.96	8.58	3.33

	ITALY Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	UNITED KINGDOM Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	13.7	14.0	14.34	13.71	n.a.	4.7	13.2	12.32	11.03	n.a.
1986	10.4	9.0	13.25	11.47	1.41	4.0	15.3	11.02	9.97	4.35
1987	10.5	11.0	11.32	10.58	1.94	4.7	14.6	9.77	9.52	3.60
1988	7.5	8.1	11.24	10.54	2.71	6.8	17.0	10.41	9.69	4.48
1989	8.1	10.1	12.41	11.61	2.46	5.9	17.7	13.96	10.30	4.36
1990	8.7	11.7	11.98	11.67	2.84	5.4	16.2	14.82	11.53	5.07
1991	9.4	2.4	11.63	13.20	3.45	2.4	8.2	11.56	10.04	4.97
2nd qtr.1991	10.1	−3.1	11.51	13.23	3.21	1.6	8.9	11.64	10.30	4.84
3rd qtr.1991	7.0	7.7	11.60	13.29	3.31	2.0	7.2	10.82	9.97	4.80
4th qtr.1991	9.0	8.3	11.84	12.92	3.59	2.8	6.2	10.61	9.72	5.08
1st qtr.1992	8.6	8.1	12.04	12.65	3.40	2.2	6.0	10.61	9.50	5.00
1991 June	8.5	−4.0	11.40	13.10	3.02	1.9	7.9	11.30	10.53	4.96
July	7.2	8.1	11.54	13.35	3.24	2.1	7.7	11.14	10.24	4.91
August	7.8	8.1	11.69	13.43	3.31	1.6	7.2	10.94	10.00	4.76
September	6.1	7.0	11.56	13.08	3.39	2.3	6.7	10.37	9.68	4.73
October	7.4	7.4	11.40	12.83	3.51	2.6	6.5	10.45	9.72	4.83
November	9.0	8.3	11.66	12.92	3.58	2.9	5.6	10.54	9.77	5.00
December	10.4	9.0	12.47	13.03	3.67	3.0	6.3	10.84	9.68	5.25
1992 January	11.1	9.4	11.97	12.71	3.37	2.1	6.3	10.71	9.49	5.00
February	8.0	7.5	12.04	12.62	3.31	2.2	6.0	10.44	9.34	4.94
March	7.2	7.3	12.10	12.59	3.49	2.2	5.8	10.67	9.86	5.04
April	9.3	9.0	12.24	12.71	3.51	2.3	5.7	10.58	9.41	4.91
May			12.24	12.60	3.45	2.5	6.2	10.13	9.06	4.81

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term: period averages of; US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor. long-term: period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.



Destabilising effects of exchange rate stabilisation

TWO per cent inflation, says Mr Norman Lamont, is the right destination for the UK economy. But the chancellor has also reaffirmed the government's determination to take sterling into the ERM's narrow bands at a central rate of DM2.95 "in due course". Given this commitment, Mr Lamont's talk of an independent target for inflation is largely otiose. Inflation and economic performance will have to be what exchange rate stabilisation permits.

The priority accorded to the exchange rate is no longer new. By 1985 Mr Nigel Lawson – inventor-in-chief of Conservative monetary doctrines – had already abandoned his attachment to domestic broad monetarism and embraced exchange rate targetry. He proposed joining the ERM at a rate of about DM3.75 in the autumn of that year. Denied by Mrs Thatcher, he allowed sterling to fall, with the price of oil, to a low of DM2.75 in early 1987.

Throughout the subsequent five and a half years, stabilisation of the exchange rate has been the chief immediate target of monetary policy, at first informally and then, after October 1990, through ERM membership. The policy has been reasonably successful in its own terms: sterling fluctuated between DM2.70 and DM3.30 prior to ERM entry, since when it has remained close to its central rate.

Has the exchange-rate-oriented monetary policy also succeeded in either stabilising the domestic economy or lowering inflationary expectations? Unfortunately the answer to both parts of the question is "no".

The behaviour of nominal gross domestic product is the obvious test for macroeconomic policies, since their direct effect is always on nominal, not real, variables. But nominal domestic demand (GDP, plus imports, minus exports) is a still better test, since macroeconomic policy influences output via demand.

The most stable period for British macroeconomic performance under the Conservatives was between the second half of 1982 and the first half of 1987. During that period the year-on-year increase in nominal domestic demand varied between a low of about 7¼ per cent and a high of about 10½ per cent. Between 1987 and 1992, by contrast, the year-on-year growth of nominal domestic demand has varied between a peak of about 14 per cent and a low of less than 2 per cent.

The years in which exchange rate stabilisation has been the predominant target for monetary policy have, therefore, seen far more macroeconomic instability than those that followed the fierce, but largely necessary, disinflation of 1979-82.

How successful has exchange rate stabilisation been in lowering inflation? The best measure of inflation for this purpose is not short-term performance, influenced as it is by transient events, but rather expectations, as measured in long-term rates of interest.

Much weight is currently being placed on the reduction in the gap between yields on British gilts and those on German Bunds, to about 1 percentage point. But this reflects higher German yields more than lower British ones. For the UK, changes in inflationary expectations can best be measured by changes in the gap between the yields on index-linked bonds and those on conventional gilts. At around 4½ per cent, this gap is only a little smaller now than in 1987.

Naturally, economists can explain away the poor performance of exchange rate targetry. They can blame it on the failure to enter the ERM earlier; they can point to the costs that would have had to be borne, in any case, to lower the still excessive inflation rates of the mid-1980s; and they can stress the glorious future of low inflation and stable growth that lies before the UK economy.

Yet it remains undeniable that the macroeconomic instability of the past five years has been considerable, while inflation is still not decisively lower than in the mid-1980s. The view that fixing sterling to the D-Mark at DM2.95 guarantees steady economic growth and price stability remains a hope, not a fact.

Martin Wolf

Accountants to Maxwell hit at report

By Richard Donkin and Alison Smith

COOPERS & Lybrand, accountants of the Maxwell empire, said yesterday it would take legal advice over criticism in a confidential report on the regulatory supervision of the Maxwell companies.

The accountancy firm said it was outraged at criticism levelled in the unpublished report by Imro, the self-regulatory body for the fund management industry.

Leaks from the report and briefings about its contents have led to hostility between the auditors and regulators, amid indications by the government that it is reluctant to involve itself in the report's publication.

Mr Frank Field, one of the MPs leading the campaign on behalf of the Maxwell pensioners has called on the government to examine ways of publishing the report, which has been submitted to the Securities and Investments Board.

Publication has been delayed because of fears that the report might be libellous, but Mr Field said that if the report was released as a House of Commons paper, anyone who wished to use it in a legal action would have to seek permission from the Commons. The government would prefer publication to be handled by the SIB, which is taking legal advice about plans to publish an edited version by mid-July, before the Commons disperses.

The Financial Times reported on June 10 that Imro had produced the report, which is understood to be largely self-critical. Imro admits in the report that it failed to set up proper risk assessment procedures. Extracts in yesterday's Sunday Times, which said it had been shown a copy, demonstrate that Imro appears also to be directing some blame for failures in the regulation of Maxwell companies at Coopers.

Coopers was the auditor for Bishopsgate Investment Management and London & Bishopsgate International, the Maxwell-owned companies at the centre of the scandal over the disappearance of £427m from Maxwell pension funds.

Neither Imro nor the SIB could be contacted yesterday, but in the light of the leaks both will be under pressure to clear the air by publishing the report at the earliest opportunity.

Top salaries review set to provoke dissent

By Alison Smith

INCREASING the pay of senior civil servants, judges and officers in the armed forces is set to cause its traditional political embarrassment for the government next week, when the cabinet is expected to consider the latest report from the Top Salaries Review Body (TSRB).

The report, said to recommend significant pay rises after a review comparing the public and private sectors, is likely to be delivered to the prime minister later this week, though almost certainly too late to be discussed at Thursday's cabinet meeting.

Though ministers are resigned to a row about the rises for the 2,000 or so judges, top government officials and senior officers in the armed forces covered by the review – because there is never an optimum time to make such increases – sensitivities are particularly acute in the prelude to a tough public spending round. The government's aim in public sector pay negotiations is an increase of no more than about 4 per cent.

Widespread criticism of large pay increases for the chairmen of privatised utilities, and ministerial urging of pay restraint on the private sector, will also add to the government's discomfort.

The government's business managers will be conscious that the issue could become a "lightning conductor" for backbench concerns about the continuing lack of economic growth.

One option to reduce parliamentary opposition to the pay rises is to make public the top pay review at the same time as the TSRB's separate report on MPs' office costs allowance – an area where MPs tend to take a more generous view.

The top pay review represents the first wide-ranging study since 1985, which recommended increases of up to 46 per cent. Even though the government phased in those rises it faced a Commons rebellion when its majority of more than 100 was cut to 17.

Companies indulge in group therapy

Coaxing a revival out of the UK economy will take patience, writes Michael Cassell

The faltering recovery

AS BRITISH industry hauls itself along the "bumpy road" to economic recovery signposted by Mr Norman Lamont, the chancellor, its leaders insist that they do not want to be rescued from recession by another short-lived boom. They can stop worrying.

Reports from boardrooms and factory floors around the country suggest that while the worst of the recession may be over, any upturn will have to be patiently coaxed out of the economy. The process of recovery promises to be a long haul.

The prize may be the long-sought circle of low inflation, rising competitiveness and an increasing share of world markets. Failure will mean a slip in Britain's ability to pay its way in the European single market and in the global markets.

Many industries agree that, after a false dawn last autumn, the early months of this year saw renewed flickerings of improvement in demand.

Most also suggest, however, that the momentum has stalled, with industry facing continuing spare capacity and uncertain patterns of demand. Where higher volume sales are achieved, they are invariably offset by lower selling prices.

The result is that business is again indulging in what one textile chief this week dubbed "group therapy" – musing on corporate ambitions to be fulfilled when the economy finally permits.

Manufacturers so far managing to report a brighter picture include some of those in pharmaceuticals and in plastics and paper. Any significant boost to car sales remains elusive, while commercial vehicle sales are still falling after nearly three years.

Companies still deep in recession include engineering businesses, as well as those in aerospace, shipbuilding and construction.

All hopes for recovery rest on a steady improvement in overall business activity during the rest of this year, with progress consolidated and built on through next year.

"The road ahead will be uneven and there will be setbacks along the way," says Mr Sudhir Junankar, deputy director of economic affairs at the Confederation of British Industry. "But by the end of next year we should see industrial activity levels back to where they were before the recession began to bite in 1990."

In spite of what promises to be painfully slow progress, industry is not beating on the government's door for help. Most calls for assistance centre on the need for an immediate start in reducing what remain historically high real interest rates. But Mr Lamont is in no hurry. Some manufacturers still want fiscal incentives to stimulate investment, but Mr Lamont has no intention of obliging.

The managing director of an industrial machinery manufacturer based in the West Midlands says: "The government is defying economic gravity by keeping interest rates so high. It makes full economic recovery a pipe dream."

Mr Simon Powell, finance director of the 600 Group, the machine-tool and mechanical handling company says: "Everyone was a bit too optimistic about the rate of recovery, but at least we see no prospect of collapsing again."

Industrialists remain pessimistic about the outlook for jobs, claiming any improvement could be 18 months away

His company, like many others, sees no material change in business from a year ago. It has made big cost savings and in "one hell of a shake-out" has cut a workforce of nearly 3,000 to 1,700 in two years. Mr Powell reflects: "The real tragedy is that so many people have gone off to sell insurance and they won't be coming back."

Although a further round of cuts in staffing in manufacturing looks unlikely, selective redundancies continue. Industrialists remain pessimistic about the outlook for jobs, claiming any improvement could be 18 months away. The manufacturing sector has so far lost about 750,000 jobs, compared with 2m during the early 1980s.

600 Group is pursuing a programme of sharply focused investment. According to Mr Powell: "We are not buying a machine if repairs will keep an existing plant going longer. We are spending in areas which can make us more flexible in our response to customer demand."

The picture is confirmed by companies such as Usher-Walker, the printing ink and roller manufacturer, which says that while ink sales to newspaper and packaging businesses are up on last year, customers are not yet replacing printing hardware.

A return to higher levels of investment in fixed assets – down in the manufacturing sector by nearly 20 per cent since 1990 – can come only with better profit margins. A compensatory factor, however, is inward investment by overseas-based companies seeking a foothold in the EC.

A strong feature of this recession has been the decline in long-term order books. "We face far less predictable ordering patterns from customers, who cannot predict their own sales," says Mr Edward Roberts, chairman and chief executive of Heath Springs, a Midlands automotive component manufacturer.

Mr Roberts says there is a growing tendency among small and medium-sized companies to "buy in" business at uneconomic prices to maintain output – "a desperate measure and a recipe for disaster".

Industry also concedes, however, that the recession – as in the early 1980s – has served to concentrate corporate minds on seeking new efficiencies. Productivity has improved more quickly in this recession than in the last, and is back to the levels of early 1990.

Pay rises in manufacturing are running at half the level recorded a year ago. Price and cost inflation in the manufacturing sector are at their lowest levels for 40 years and some forecasts suggest could be below 3 per cent by 1997.

The prospect offers the opportunity to remain competitive throughout the remainder of the 1990s – a bonus already reflected in an export performance that has improved as home markets have deteriorated.

The shedding of skilled labour, a reduction in investment and the threat of an eventual wage explosion may present serious handicaps as a revival gets under way. For the moment, though, industry confronts the continuing difficulties of underperformance rather than overheating.

Mirror Group expected to report £300m loss

By Raymond Snoddy

THE long-awaited accounts of Mirror Group Newspapers, to be published tomorrow, will show losses of more than £300m after full provisions have been made.

The newspaper group's gross losses are expected to total about £400m, including the money that disappeared in the last months of Robert Maxwell's life and £150m in lost pension-fund money.

The trading profits of the group, which includes the Daily Mirror, Sunday Mirror, The People, The Scottish Daily Record and the Sunday Mail, are expected to be about £80m.

The publishing of the accounts is seen as an essential step on the way to clarifying the company's future, as no one was prepared to bid for the company until its true financial position was known.

Directors expect to announce the completion of a two-year financing for MGN – £180m in lease finance and £250m in loan facilities.

The relisting of MGN shares, suspended in December, is not expected for at least another two weeks.

Retail survey to widen scope

THE Central Statistical Office is to bow to pressure from retailers and add new data to its monthly survey of the sector, which accounts for about one quarter of the economy, writes Peter Marsh.

The monthly report by the government's statistical agency will in future provide a fuller breakdown of shifts in sales of specific items such as food and clothing. It may also give better warning of changes in consumer demand which have a bearing on broad economic fluctuations.

The change follows pressure from some large retailers and reflects the drive by Mr Norman Lamont, the chancellor, and Mr Bill McLennan, the recently appointed head of the CSO, to improve Britain's economic statistics.

The new figures will emerge from detailed questions to be sent by the CSO every month to about 50 large companies in "mixed retailing" – including sales of food and non-edible items.

Such stores, including Marks and Spencer, will be asked to break down total sales according to four categories: food, clothing and footwear, household goods and miscellaneous items.

The extra data will be added to sales figures in these four areas provided by other specialised businesses active in a single category of retailing.

The new information should help the CSO to make its monthly survey more comprehensive. The agency expects the new data to become available towards the end of the year.

Letters, Page 11

UK government defends Delors' record on Europe

GOVERNMENT EFFORTS to rehabilitate Mr Jacques Delors so far as the Conservative party is concerned were renewed yesterday, as Mr Kenneth Clarke, the home secretary, mounted a defence of the EC Commission president, writes Alison Smith.

Mr Delors is expected to be reappointed for two years at the Lisbon summit at the end of this week, and his support is likely to include the UK government.

In an interview on TV-am, Mr Clarke said that Mr Delors "will follow through what he says about not wanting the Commission to be over-centralised, not wanting the Commission to interfere in things which would be better run by national governments.

"I think we ought to wait and see who becomes president without deciding that this man is responsible for every piece of nonsense that has come out of Brussels in the last few years," Mr Clarke said.

ECONOMICS

Focus on German money supply and cost of living

ATTENTION will be focused on Germany this week where May money supply data and the cost of living index for June will be relased.

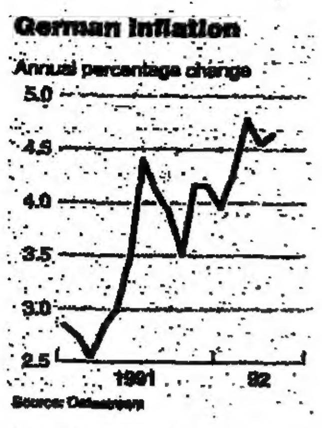
German M3 money supply growth is unlikely to have slowed significantly last month. In April the year-on-year rate of growth dropped to 8.8 per cent from 9.4 per cent in March. This was still significantly above the 1992 target growth rate of between 3.5 per cent and 5.5 per cent.

Economists are *forecasting* an annual rate of inflation of 4.3 per cent in May, from a revised 4.6 per cent in April.

However, they are not yet convinced that the inflationary pressures in the German economy have been successfully squeezed.

Service sector prices have been particularly stubborn. In the first four months of the year they accelerated to an annual rate of 5.7 per cent following rent increases.

The following are some of the other economic highlights of the week, with the figures in brackets the median of economists' forecasts from MMS International:



Today: UK, May visible trade balance (£1.1bn deficit), May current account (£0.9bn deficit); Japan, May money supply (up 1.4 per cent on year), April personal consumption expenditure, April personal income; Canada, first quarter real gdp (up 0.4 per cent on previous quarter).

Tomorrow: Japan, Bank of Japan governor Mieno gives speech to private organisation; Luxembourg, all markets closed; Australia, April manufacturing output price index.

Wednesday: UK, first quarter GDP (down 0.5 per cent on quarter, down 1.4 per cent on year), *May building society* net new commitments (£3.2bn), April new construction orders; US, May durable shipments, June 11-20 auto sales (6.5m); France, May trade balance (FFr1.5bn surplus).

Thursday: US, final figures for first quarter GDP (up 2.4 per cent), first quarter GDP deflator (up 3.1 per cent), first quarter after tax *corporate profits*, May existing home sales, May export price index, May import price index, initial claims for week ended June 13 (400,000), money supply data for week ended June 15; Australia, April import prices; Switzerland, Swiss National Bank annual press conference.

Friday: US, May personal income (up 0.4 per cent), May personal consumption expenditure (up 0.4 per cent), May *bank credit*, May commercial and industrial loans; Japan, June Tokyo CPI (up 2.5 per cent on year), excluding perishables (up 2.5 per cent *on year*), May national CPI (up 2.1 per cent on year) excluding perishables (up 2.4 per cent on year), May *industrial* production (up 0.5 per cent), May retail sales (up 0.6 per cent on year); Australia, April motor vehicle registrations (up 4 per cent); Portugal, EC summit – continues until 27 June.

During the week: Germany, May import prices (up 0.2 per cent on month, down 2.1 per cent on year), May M3 (up 8.5 per cent), June preliminary cost of living (up 0.3 per cent on month, up 4.3 per cent on year); Italy, May trade balance (L2.1 trillion deficit), June, CPI – major cities (up 5.8 per cent on year), April cumulative PSBR (L55 trillion), May bank lending (up 15 per cent on year), May hourly earnings (up 6.5 per cent on year); Belgium, May CPI.

Emma Tucker

PARLIAMENTARY DIARY

TODAY
Commons: Questions to Welsh ministers and Chancellor of the Duchy of Lancaster. Boundary Commissions Bill, *committee*. **Lords:** Maintenance Orders (Reciprocal Enforcement) Bill, second reading. Debate on proposals to end requirement for wearing wigs and gowns by judges and barristers. Debate on government support for exporters.

TOMORROW
Commons: Education questions. 3.15pm Questions to the Prime Minister. Boundary Commissions Bill, committee. Protection of Badgers Bill, all stages. Trade Union and Labour Relations Bill, all stages. Tribunals and Inquiries Bill, *all stages. Criminal law orders.* Debate on Members' Interests Select Committee reports. **Lords:** Food Protection (Emergency Prohibitions) (Dioxins) (England) Order. Army, Air Force and Naval Discipline Acts (Continuation) Order. Company and Business Names (Amendment) Regulations. Debate on a national identity card scheme. Debate on the Rio Earth Summit.

WEDNESDAY
Commons: Scottish questions. Debate on English and Welsh special grant reports. Charge Limitation (England) (Maximum Amounts) Order.
Lords: Debate on help for parents. Debate on improving *treatment of young offenders.*

THURSDAY
Commons: Northern Ireland questions. 3.15pm Questions to the Prime Minister. Debate on the Rio Earth Summit. **Lords:** Sporting Events (Control of Alcohol) (Amendment) Bill, committee. *Human Fertilisation* and Embryology (Disclosure of Information) Bill, committee. Prisoners and Criminal *Proceedings Bill (Scotland)* report. Building Societies (Member States) Order.

FRIDAY
Commons: Backbench debates on countryside conservation and religious education.
Lords: Not sitting.

RESULTS DUE

TSB, the sixth largest UK banking group, is forecast to make a return to profits when it announces its half year results on Thursday.

A year ago, TSB dismayed the markets by unveiling pre-tax losses of £150m after Hill Samuel, the merchant bank bought by the group in 1988, made a loss of £319m after bad debt provisions of £344m.

This time around the news from Hill Samuel is still expected to be fairly grim, but reduced provisions and improved profits on the retail side should mean a pre-tax profit for the group of between £77m and £100m.

This is still way below the £175m pre-tax in the first half of 1989, but the market is more worried about further bad news than hopeful of a return to good times at TSB.

Airtours, the holiday company, is likely to report an interim pre-tax loss of £7.25m tomorrow from a loss of £6.2m in the comparable period because after expansion of the number of holidays on offer. Its first-half is always far weaker than its second. On that basis, and notwithstanding any collapse of demand or excessive discounting, the company should make an increased full-year profit of £26.5m compared with £27.5m.

Three more regional electricity companies are expected to announce bumper profits this week. On Wednesday, London Electricity should report pre-tax profits of around £145.5m, up 41 per cent on last year's pro forma result, analysts believe. This is close to the average expected for all 12 companies. Earnings per share may be around 48.7p.

Both Southern Electric and South Wales Electricity results are due on Thursday. Analysts expect an increase of around 50 per cent from Southern, giving pre-tax profit of close to £160m. South Wales Electricity, the smallest of the 12 companies, is expected to report a comparatively modest rise of just below 30 per cent, giving pre-tax profits of just under £75m.

Three water companies report next week. Wessex Water is likely to show a 17 per cent increase in fiscal 1992 profits to £77m tomorrow Yorkshire Water is forecast for a 10 per cent increase to £125m on Thursday. Southern Water pencilled in for a 14 per cent rise to £111m on Friday.

UK COMPANIES

TODAY

COMPANY MEETINGS:
Foreign & Colonial German Inv. Trust, Exchange House, Primrose Street, E.C., 12.15
Greenacre, The Copper Inn, Pangbourne, Berkshire, 10.00
Hopkinsons, The Lodge Hotel, 48, Birkby Hall Road, Birkby, Huddersfield, West Yorkshire, 2.00
North British Canadian Inv., *Saltire Court, 20*, Castle Terrace, Edinburgh, 2.45
I & S UK Smaller Co's Trust, One Charlotte Square, Edinburgh, 12.30
Jackson Group, Seckford Hall Hotel, Woodbridge, Suffolk, 12.15
Jarvis, 57, Great Eastern Street, E.C., 11.00
Prowting, The Brewery, Chiswell Street, E.C., 12.30
Securities Trust of Scotland, 20, Castle Terrace, Edinburgh, 12.30
Shires Inv., *41, Tower* Hill, E.C., 12.00

BOARD MEETINGS:
Finals:
Allen
Amber Indl.
Campbell & Armstrong
Fletcher King
Hardy Oil & Gas
Harris (Philip)
Investment Co.
Ivory & Sime
TGI
Westport
Interims:
Heavitree Brewery

TOMORROW

COMPANY MEETINGS:
Brixton Estate, 22-24, Ely Place, E.C., 12.00
Govett Oriental Inv. Trust, Painters Hall, 9, Little Trinity Lane, E.C., 12.00

BOARD MEETINGS:
Finals:
Birkdale
Ferranti
Halma
I & S Optimum Inc. Tst.
Wessex Water
Whitecroft
Interims:
Airtours
Kleinwort Charter Inv.
Shoprite

WEDNESDAY

COMPANY MEETINGS:
BSG Intl., National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 11.30
Forward Group, Hedging Lane, Dosthill, Tamworth, Staffs., 12.00
Mercury Asset Management, 33, King William Street, E.C., 11.00
Ralston Inv. Trust, 85, Queen Victoria Street, E.C., 12.30
Walker Greenbank, Howard Hotel, Temple Place, Strand, W.C., 3.00
York Waterworks, Lendal Tower, York, 10.30

BOARD MEETINGS:
Finals:
AAH
BTP
Bristol Water
Brown Shipley
Courts (Furnishers)
ERF
Feedback
Hogg Robinson
JLI
London Electricity
ML
Wagon Indl.
Interims
First Leisure
Hoskyns
Lee (Arthur)
Southern Business
Walker Greenbank

THURSDAY

COMPANY MEETINGS:
Appleby Westward, St Mellion Golf & Country Club, St. Mellion, Saltash, Cornwall, 2.30
Farnell Electronics, Queens Hotel, Leeds, 1.00
Finlay (James), Glasgow Royal Concert Hall, 2, Sauchiehall Street, Glasgow, 12.15
Gerrard & National, 33, Lombard Street, E.C., 12.00
Helene, Berners Park Plaza Hotel, 10, Berners Street, W., 11.30
London Atlantic Inv. Trust, 91, Waterloo Road, S.E., 12.00
Moss Bros., *Barber Surgeons Hall*, Monkwell Square, E.C., 12.00
Scottish Mortgage & Trust, 1, Rutland Court, Edinburgh, 11.00
Upton & Southern, Swallow Kings Head Hotel, Priestgate, Darlington, 2.00

BOARD MEETINGS:
Finals
BPB Inds.
Berkeley
Brown & Tawse
Camellia
Kalamazoo
Neepsend
Rothmans Intl.
Scantronic
Southern Electricity
South Wales Electricity
Yorkshire Water
Interims:
Chiltern Radio
Greenwich Resources
Hardys & Hansons
Soundtracs
TSB

FRIDAY

COMPANY MEETINGS:
Bilton (Percy), Bilton House, Uxbridge, W., 12.00
Brown Shipley, Founders Court, Lothbury, E.C., 12.00
European Colour, 7, Tib Lane, Manchester, 11.30
LGW, International House, Old Brighton Road, Lowfield Heath, Crawley, West Sussex, 10.30
South Staffordshire Water, Green Lane, Walsall, West Midlands, 12.30
Trimoco, 77, London Road, Dunstable, Bedfordshire, 12.00

BOARD MEETINGS:
Finals:
Syltone
Vistec
Interims:
Bett Bros.
Brunner Inv. Tst.

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

TODAY

Alcan Aluminium $0.15
Barlows 1.65p
Commonwealth Bank of Australia Gtd. Und. Var. Rate Cap. Nts. $132.39
Enron Corp. $0.325
Jupiter Tyndall 3p
Lasmo $10\frac{3}{8}$% Deb. 2009 £5.1875
London & Provincial Shop Centres 10% 1st Mtg. Deb. 2026 £5
Marine Midland Banks Fltg. Rate Sub. Nts. 2009 $137.08
Riggs National Corp. Fltg. Rate Sub. Nts. 1996 $137.08
Standard Chartered Und. Prim. Cap. Fltg. Rate Nts. £140.25
Suter 5.6p
Taiwan Power Fltg. Rate Nts. 1992 $269.79
Tiger Oats R0.28
Wace 6p

TOMORROW

Bank fur Arbeit und Wirtschaft AG Sub. Fltg. Rate Nts. 1999 $266.88
F & C German Inv. Tst. 0.4p
Leeds Permanent Bldg. Soc. Sub. Var. Rate Nts. £290.96
Midland Bank Und. Fltg. *Rate Prim. Cap. Nts.* $254.17
Republic of Italy Fltg. Rate Nts. 2000 $228.75
Woolwich Bldg. Soc. $9\frac{3}{4}$% Fxd/Fltg. Rate Nts. 1995 £58.48

WEDNESDAY

Banco de Santander SA 9% Sub. Cnv. Bds. 1994 4.5pc.
BSG Intl. 2.5p
Halliburton $0.25
Kvaerner B DK3
Do. Free A DK3
Lawson Mardon Class A Sub. $0.1
Manchester Corp. 3% Red. Cns. £0.75
Do. 4% Cns. Irrd. £2
Metropolitan Water Board Kent Water Works 3% Deb. £3
North British Can. Inv. 2.35p
State Bank of India Fltg. Rate Nts. 1997 $266.88

THURSDAY

Du Pont De Nemours (E. I.) $8\frac{1}{2}$% Nts. 1996 4.25pc.
Grampian TV A NV 4.5p
State Bank of New South Wales 10% Nts. 1997 NZ$100
Thornton Asian Emerging Mkts. Inv. Tst. 0.5p
TSB Gilt Fd. Ptg. Red. Prf. *(Class B) 0.8333p*

FRIDAY

Alexandra Workwear 1.8p
American Cyanamid $0.4125
Anglo American Coal R3.15
Asahi Chemical Industry $7\frac{1}{2}$% Bds. 1998 3.8pc.
Black & Decker $0.1
Bowthorpe 7% Uns. Ln. 1990/95 £3.5
Bridgend 0.8p
Dawsongroup 1.5p
Gleeson (M J) 3.35p
Greenacre 0.125p
King & Shaxson 2.5p
Do. $3\frac{1}{2}$% Ptg. Prf. 3.15p
5% ($3\frac{1}{2}$% net) 2nd Prf. 1.75p
Lex Service $6\frac{1}{2}$% (4.55% net) Prf. 2.275p
Do. $8\frac{1}{2}$% Sec. Ln. 1992/97 £4.25
Moss Bros 3.5p
SCA-Svenska Cellulosa B SK3.2

SATURDAY

Commonwealth Bank of Australia 10 Yr. Gtd. Ext. Fltg. Rate Cap. Nts. $224.18
Elf Enterprise Finance $8\frac{3}{4}$% Gtd. Exch. Bds. 2006 £347.5

SUNDAY

GKN $6\frac{1}{2}$% Uns. Ln. 1988/93 £3.25
Do. (UK) $7\frac{3}{4}$% Gtd. Deb. 1987/92 £3.875
Do. $9\frac{3}{4}$% Gtd. Deb. 1991/96 £4.875
Do. $10\frac{1}{2}$% Gtd. Deb. 1990/95 £5.25
Do. $10\frac{3}{4}$% Gtd. Deb. 1992/97 £5.375
Housing Finance Agency 2% IL 1993 IR£1.515

MANAGEMENT

Many arms manufacturers have been seeking to diversify. But **David White** says BAe's missile makers have been concentrating on what they know best

Fired with a new enthusiasm

Diversification has become the siren song of arms manufacturers facing reductions in defence spending. But at Britain's principal missile factory, managers have closed their ears to it. They take pride in having chosen just the opposite course.

Instead of making use of existing skills to branch out of a depressed defence market into civilian products, British Aerospace managers are sticking to what they know. They have reduced the range of activities at the plant at Lostock near Bolton and are training employees in new skills to improve performance in the core activity of guided weapons.

After a period when the future of the business was in serious doubt, the Lostock plant is a changed place. The machinery in what used to be one of the largest machine shops in Europe has been thinned out. The plant has been converted wholesale to Japanese methods of assembly and inventory control, even in specialised low-volume production lines. Round tables have been installed for morning and afternoon performance review meetings. People who worked as machinists can now be seen braiding tresses of electrical wires.

Concentrating on core activities was a risky gamble, since the outlook in those activities was far from secure. Until very recently, there were questions over all the division's big new projects.

Throughout 1990, BAe's plan was to merge the division with the guidance systems activities of France's Thomson-CSF. But its own business prospects appeared to get steadily bleaker and the merger plan fell through early last year.

The British government was threatening to pull out of a multinational project for a new long-range anti-tank weapon involving BAe as the UK partner. The division was also being challenged over its biggest single project: a GEC-Matra consortium was competing to supply the RAF with a new air-to-air missile. If it won, the inevitable next step seemed to be a takeover of BAe's missile operations by GEC.

This year its fortunes have turned, with a batch of orders worth more than £700m. In the interim, BAe's workforce in the Dynamics division has been cut from 16,500 to below 6,000 and the number of big sites from seven to three. Almost all the manufacturing has been concentrated at Lostock.

The buildings date from the 1930s, a former de Havilland factory with a long record of diversified aerospace business. In 1988, guided weapons made up only about half the workload. "What we'd got here was a real mish-mash of everything," says Tom Nicholson, operations manager of BAe's Dynamics division.

Don Dewin, the current general manager for the site, found "an unsuccessful business unit that was a law unto itself". Everything was done on-site, from printed circuit-boards to machining nuts and bolts. "Their standards of success were all about technical performance," says Nicholson. "The concept of competitive advantage wasn't understood."

Employees were presented in stark terms with the problems of the business: high costs, high work-in-progress, late deliveries, customer dissatisfaction. "Existing work is insufficient and the site is grossly overloaded," said an internal management pamphlet.

The management gave itself until the end of 1992. Although more production has been moved to Lostock, the workforce has been almost halved to about 1,400. Demarcation lines have vanished. "It used to be one man, one skill, one task, one machine," says Nicholson. "Now one man can look after three or four machines."

Works convener Frank Hilton admits the lessons were hard to swallow. "Nobody likes change," he says. But the need was accepted and the transformation has taken place without industrial disputes.

The traditional hierarchy, involving between eight and 11 layers, has gone. Between Dewin and the shop-floor there are now just three layers – head of manufacturing, group leader and team leader. The company is moving towards a flexible, multi-skilled workforce in which each operator is trained to inspect the quality of his own work.

Last year, the plant began its conversion to the Kawasaki Production System, applied by consultants Price Waterhouse under a licensing agreement with the Japanese group. The aim is to create a logical work flow, based on integrated teams, and to compress inventories and lead times. When production of the RAF's new Alarm anti-radar missile began in 1989, the manufacturing cycle was 80 weeks. It is now 30.

Kawasaki itself has extended the system – designed to ensure that components arrive only when they are needed – from motor-cycle production to other sectors including aerospace. In the UK, says Andy Taylor of Price Waterhouse, "very few companies have taken it whole-heartedly on board." The big challenge at Lostock, says Taylor, has been to apply the same principles used in flowline production to "one-offs", complex products made in small numbers, such as the ground equipment for the new-generation Rapier 2,000 air defence system.

Confident that it now has its own manufacturing process under control, BAe Dynamics has started programmes for working with its suppliers on similar lines.

Nicholson recognises that the Lostock plant is still "a long way from best Japanese practices". But he reckons it is one or two years ahead of BAe's cash-rich military aircraft division, which has not yet had to face an abyss. Says Nicholson: "There couldn't have been a better climate to do it in".

Checking up on the supervisors

Bad supervision has long been a problem for UK companies. Yet improving the performance of supervisors can cause unwanted side-effects.

One company taking part in a pilot scheme was appalled when its supervisors began to criticise their own managers. It panicked and threw out the government-backed researchers conducting the trials.

This was an extreme response from just one of 200 companies which took part in mainly successful trials of the UK's first standards designed to assess and improve the quality of supervisors.

The standards were published last week by the Management Charter Initiative, the UK industry and government-backed body which is struggling to improve the performance of managers. The MCI found that middle managers tended to make the life of supervisors a misery, sabotaging them while at the same time branding them as the Achilles' heel of UK business. The companies found that flawed management structures and practices were often a more important cause of poor supervision than the supervisors themselves.

Indeed, few organisations have a clear idea of what supervisors do, let alone what they should do. This confusion is a central obstacle to effective supervision. The problem has been made worse by radical reforms of management structures and inadequate training.

The MCI believes its standards offer a mechanism for defining, assessing and improving the competence of supervisors.

The UK's 1.2m supervisors are a disparate group – ranging from leaders in a Belfast missile factory to British Rail station managers – so that not all standards apply to all supervisors. Employers should look at the company's objectives, identify the contribution of supervisors and then pick the standards which apply.

The standards are made up of seven units of competence. Each describes what is expected of a competent supervisor in particular aspects of the job. The actual outcomes can then be measured against what is desired and differences addressed where necessary.

Catherine Milton

Better to stay in control than try to branch out

Daniel Green reports on the pitfalls facing defence contractors seeking new markets in the civil sector

When Dowty, a middle-sized defence engineering company, decided in the mid-1980s to diversify into the civil sector, it made a classic mistake.

From its hard won position of providing command and control systems for Royal Navy ships, it plunged into a competition for a £700m civil aviation air traffic control system. But by 1991, it had finally lost out to formidable rivals like IBM or Thomson-CSF, the French state-owned company.

The moral of the story, according to the National Economic Development Council which documented the case*, is that "it is very difficult to topple established major players whose past performance has not been subject to significant problems".

This is only one of the many potential obstacles in the way of defence contractors seeking new markets. A recent survey of defence companies by The Technology Partnership, a consultancy, found that executives see many blocks to diversification, including:

● A lack of marketing skills in the civil sector.

● Management accustomed to dealing with one customer – the Ministry of Defence – and unable to adapt to a more entrepreneurial environment.

● Financial pressures: banks have become less prepared to lend on risky projects and top management and shareholders compound the problem by demanding rapid returns on investment.

Some companies can overcome these obstacles. Racal Avionics was formed in 1982 from Decca, which Racal had bought in 1980. At the time, it made aircraft radio equipment and sold 90 per cent of output for defence purposes.

Leo Gallagher, marketing director, says that when Racal decided to try to find civil customers, it had two main planks to its strategy: to identify products with the potential to be world leaders and, therefore, to compete on technology rather than price. It found that some of its satellite communications equipment could be fitted to civil aircraft with little modification.

The company underwent a profound cultural change, says Gallagher. "We had to become absorbent to new ideas. There was a big impact on marketing and product support." For example, sales staff had to recognise that while defence customers had their own maintenance crews, civil buyers did not.

But without expertise in such levels of customer service, or in marketing outside the defence sector, Racal also needed partners. It established a joint venture with Honeywell, the US electronics company and formed a consortium with British Telecom and British Airways to develop aircraft-based satellite communications.

More than 60 complete satellite communications systems have now been delivered at a typical cost of $500,000 (£270,000) each.

On the basis of this and nine more cases, NEDC has produced a set of guidelines for companies keen to diversify:

● Build on strengths. Change the product or the market but not both.

● Prepare for cultural change. Relationships with customers and perceptions of how long it takes to get a product to market are different in the civil sector. Expertise may have to be recruited at the highest level. A dedicated project team is one answer.

● Be prepared to acquire people and skills through recruitment, acquisition or joint ventures.

● Prepare to spend. Diversification must be driven by the board; ideas from the workforce should be sought but rigorously grounded.

If these rules look familiar, so they should. NEDC staff and defence executives see them as applicable to any company thinking of diversification, not just those in the defence sector.

Diversifying from Defence: Case Studies and Management Guidelines. NEDC. 1991. £25.

CONTRACTS

Motorway work for Tarmac

Major reconstruction work at two junctions with the M25, amounting to more than £4m, is to be carried out by TARMAC CONSTRUCTION.

A £2.7m contract has been awarded by Surrey County Council for repairs and reconstruction to four and a half kilometres of slip roads and motorway at Leatherhead, Junction 9.

Reconstruction, concrete repairs and surface dressing, costing £1.5m, is to be carried out for Kent County Council along the A20 to the slip roads to the junction at Swanley.

Mixed workload

A batch of contracts has boosted the SHEPHARD HILL order book by nearly £10m. Almost half of this sum is a £4.5m contract by Severn Trent Water for the Strensham to Worcester main. Over the next 16 months the Cardiff office will be responsible for the installation of 19km of 600mm diameter water main through the Worcestershire countryside.

Another award is the construction of the £3.6m Ash bypass for Kent County Council. Shephard Hill's southern region is handling the 5.5km of new single carriageway on the A257 that will provide a much needed improvement to the Canterbury to Sandwich link.

Cornish orders

E THOMAS CONSTRUCTION has won four contracts in Cornwall worth more than £4m. They include a £3m project at Treloggan Road, Newquay, for construction of a superstore shell for Safeway. It involves building a generally single-storey superstore of about 46,700 sq ft and a petrol filling station.

Developing port in Oman

An artist's impression of the proposed port expansion at Mina Qaboos in Muscat

A £17m contract has been awarded by Oman's Ministry of Communications to WIMPEY ALAWI, part of the Wimpey Group, to develop the country's international sea port of Mina Qaboos in Muscat.

The contract comprises the expansion and upgrading of existing port facilities in the country's capital. The detailed engineering work has been prepared by Consulting Engineering Services of India with the Port of Rotterdam as sub-consultant.

The project includes the redevelopment of 460 metres of berths, the erection of a 500 metre long sea wall across the Shutaify Bay and the installation of 190,000 sq metres of block paving.

Extensive pre-construction civil engineering works will be necessary, blasting and processing 500,000 cu metres of rock from the mouth of the bay.

Maintenance work will be carried out to five of the 12 existing berths, a one kilometre long access road will be built and additional support service buildings are to be constructed including a 6,100 sq metre container freight shed.

Work starts in July and will continue for 21 months.

Multi-storey offices in central London

TROLLOPE & COLLS CONSTRUCTION, a member of the Trafalgar House Group, has been awarded a £9m contract to demolish and rebuild multi-storey offices in central London for L.E. Lundbergforetagan - the Swedish property and investment group.

Demolition is already in progress at Alexandra House, 29-33 Kingsway, London WC2 where the company is taking down most of the existing building while retaining the original facade. Reconstruction work is due to begin in July and at the end of the 69-week programme the new building will have an in situ steel frame with concrete floors, and insulated slating on a pitched roof.

The site leaves little room for manoeuvre with constant traffic at the front and only a small working area at the back.

When complete the offices will provide 58,000 sq ft net of office space spread over nine floors plus basement, with a central atrium, wall climbing lifts and high quality finishes.

Maintaining Benefits Agency premises

HENRY BOOT & SONS, based in Sheffield, has been awarded a four-year planned maintenance contract with an approximate value of £5m per annum for the management of maintenance and construction project services at Benefits Agency office premises throughout Scotland and northern England (from Stornoway in the Outer Hebrides down to Sheffield).

The work varies from modest repair and maintenance undertakings to large scale capital refurbishment projects. The client is the Secretary of State for Social Security through The Benefits Agency Estates.

The Borough Council of Dudley has awarded the company a £2.4m contract for the construction of industrial workshops and a seminar suite at the Mans Hill Campus of Dudley College of Technology. Completion of the 10-month contract is programmed for March, 1993.

Work has started this month on the six-month refurbishment of Queen Anne's Chambers in Broadway, London - a six-storey commercial office block - for Property Holdings (PSA). External refurbishment is to be carried out to roofing, brick and stonework, windows and other areas as well as internal decoration on various floors.

Extensive reconstruction of the M1 viaduct at Junction 34 is to be carried out for the Department of Transport.

The present prestressed and post tensioned deck is to be replaced with a steel/concrete composite deck on the existing substructure. A temporary six metre wide slip road is to be provided.

The 28-week project will be completed by December.

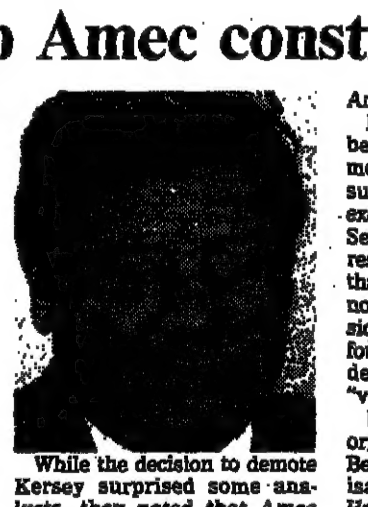
PEOPLE

Building up Amec construction

John Dean, joint managing director of BICC's Balfour Beatty construction arm, has taken over as chairman of Amec's mechanical and electrical activities in a move to strengthen the management of a part of the Amec group which has been hard hit by the recession.

Dean, 51, replaces Mike Kersey, 50, who becomes deputy chairman. Kersey, a veteran Mathew Hall man, joined Amec after it acquired Mathew Hall in late 1988.

Amec's mechanical and electrical businesses account for an estimated 25 per cent of the group's profits and turnover and Dean's appointment suggests that Amec is anxious to take a tighter grip on what is one of its toughest businesses. Malcolm Hawe, architect of Amec's ill-timed expansion into housebuilding, has also been replaced recently.



While the decision to demote Kersey surprised some analysts, they noted that Amec and Balfour Beatty share similar cultures and often work as partners on the same construction projects. Dean has spent 18 years with Balfour Beatty including stints as managing director of Balfour Beatty Engineering & Services and chairman of Balfour Beatty America.

Balfour Beatty itself has been undergoing a management shake-up following the surprise departure of chief executive David Cawthra last September. However, Dean resigned in January, and says that his decision to quit had nothing to do with BICC's decision to look outside the group for Cawthra's replacement. He describes his departure as "very amicable".

However, as part of the reorganisation, the old Balfour Beatty top management organisation has been disbanded. Haro Bedelian has become deputy to Peter Mason, the new chief executive hired from Norwest Holst last month, and Ian Carroll has been put in charge of all the group's channel tunnel power activities and made chairman of Balfour Kilpatrick. BICC says that Dean is not being replaced.

Constructive careers

■ Samir Al-Jawad (above left) previously Middle East regional director for Acer Freeman Fox, has been appointed chairman for GIBB Middle East.

■ Warwick Waugh (above right) has been appointed a director of FOSTER WHEELER Energy.

■ George Parsons has been promoted to be md of Robertson Contracting, a division of ROBERTSON CONSTRUCTION GROUP.

■ Roger Thompson has been appointed finance director of ALFRED McALPINE CONSTRUCTION HOLDINGS.

Bodies politic

■ Richard Powell has been appointed president of the STORAGE AND HANDLING EQUIPMENT DISTRIBUTORS' ASSOCIATION.

■ Elizabeth Taylor has been appointed chairman of the ASSOCIATION OF INSURANCE AND RISK MANAGERS IN INDUSTRY AND COMMERCE.

■ Tony Hardiman has been appointed chairman of the NATIONAL CAVITY INSULATION ASSOCIATION.

■ John Lee, operations director of ALLGOOD HARDWARE, has been elected president of the GUILD OF ARCHITECTURAL IRONMONGERS.

■ Gordon Edington, chairman of Lynton, has been elected chair of the PUBLIC ART DEVELOPMENT TRUST.

■ John Harries, Andrew Kennedy, David Knowles and Eva Lauermann have been appointed fellows of the KING'S FUND COLLEGE.

■ Christopher Stewart-Smith, chairman of Healthcall and a past chairman of the London Chamber of Commerce, has been elected president of the BRITISH CHAMBERS OF COMMERCE.

■ Sir Edwin Nixon, deputy chairman of National Westminster Bank, has been elected chairman of the council of LEICESTER UNIVERSITY for a three-year period.

■ Ray Cadman, chairman of C&C Bedding & Upholstery, has been elected president of the NATIONAL BED FEDERATION.

■ Brian Calder, md of Gonzalez Byass (UK), has been elected chairman of the SHERRY SHIPPERS COMMITTEE.

■ Michael Whelan, formerly a partner of Pannell Kerr Forster, has been appointed chief executive of The PARKINSON'S DISEASE SOCIETY.

■ Archie Hutchison, former deputy group chief executive of the Littlewoods Organisation, has been elected president of the EUROPEAN MAIL ORDER TRADERS' ORGANISATION.

■ Ford's reputation as a recruiting ground for Britain's corporate treasurers has been strengthened by GRAND METROPOLITAN's decision to poach Nick Rose, treasurer, Ford of Britain, to be its new group treasurer.

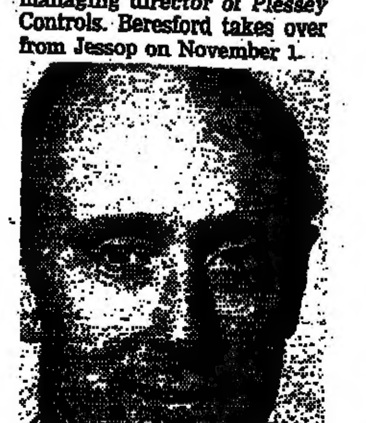
The 34-year-old Rose, who joined Ford after leaving Oxford, replaces Mike McCann who died some months ago. Although McCann joined GrandMet after a short stint as Trafalgar House's group treasurer, he had also spent the bulk of his career on Ford's financial side, including a stint as treasurer of Ford's UK arm.

Rose, who will be responsible for managing GrandMet's liquidity, debt and exchange rate exposure, reports to David Defty one of GrandMet's two deputy finance directors. Rose says that the big difference between his old job and his new one is that GrandMet has a lot of debt and his responsibilities will cover the world, whereas at Ford, he was restricted to the UK. With annual turnover of £8.7bn and pre-tax profits of £963m, GrandMet is Britain's tenth biggest company.

■ GKN, one of Britain's biggest engineering companies, is injecting some fresh blood into its top management team. It has hired Marcus Beresford, managing director of Siemens Plessey Controls, to head its industrial services business.

Beresford, 50, will be one of three managing directors sitting on the GKN board and replaces John Jessop, 54, who retires at the end of the year in order to pursue his personal interests. Up to now GKN has recruited its executive directors from within the group, although finance director Brian Walsh was recruited from outside the group in 1987.

Beresford, 50, joined Smiths Industries in 1963 and by 1978 had become managing director of its automotive group. In 1983 he moved to Lucas as director and general manager Lucas Electronics and Systems, a joint venture between Lucas and Smiths Industries. Two years later he joined Plessey as managing director of Plessey Controls. Beresford takes over from Jessop on November 1.



Architecture/Colin Amery

Less talk, more action on the government front

The Royal Fine Art Commission has issued an important little yellow book with a catchy title, *Medicis and the Millennium? Government Patronage and Architecture*. It is modestly written by Judy Hillman – a veteran planning and architectural writer – and modestly produced. It says a lot of things that have often been said before but nonetheless need repeating, and repeating until they are really understood, about the need for Government to build only to the highest quality of design.

We seem to need special events and anniversaries to concentrate the official mind, and the current focus on the approaching millennium is as good a reason as any to think about the quality of Britain's buildings and cities for the long term future. Rumours abound about what is in the mind of the new Minister in the cabinet with special responsibilities for the National Heritage. Last week there was press speculation about a new national opera house which might be built on London's South Bank to house both the Royal Opera Company and the English National Opera. This seems, to say the least, a curious idea at precisely the moment the two companies are launching major appeals for development funds to improve their existing premises.

Mr Mellor's dream of a great millennium monument to be funded by the Government will, like everything the Government does, need Treasury approval. It is perhaps the hope that the proposed national lottery will suddenly produce a flood of funds to enable the government to be generous to architecture and the arts? At present it looks as though the Treasury have still got a lot of decisions to make about the lottery, its tax status, and the ultimate destination of the funds.

There are four likely destinations. The Millennium Fund optimistically hopes to pay for every important public building in the country to be restored and refurbished. Exactly how this is to happen is not clear. As one of the destinations for lottery cash the Millennium Fund could soon consume most of the money. The arts in general are to be beneficiaries, as is sport. The National Heritage – presumably through the excellent National Heritage Memorial Fund – is the likely fourth beneficiary.

It can be seen that there is no shortage of clients to spend the nation's betting profits. And there will be no shortage of advice for ministers from quangoes like the Royal Fine Art Commission and a whole range of artistic beggars. But pious wishes are no substitute for planning and action. The millennium is very close and if ministers in this government want to leave the nation some more substantial monuments than a Canary Wharf full of unhappy civil servants and acres of empty offices, then a coherent and effective plan is needed.

Establishing priorities is essential and there are some obvious ones. Improvement in the quality of the homes of the people should take first place over everything else;

> 'We seem to need special events and anniversaries to concentrate the official mind, and the current focus on the millennium is as good a reason as any to think about the quality of Britain's buildings'

this is seldom mentioned by anyone except the Prince of Wales. I recently asked a young friend what he would like to see to mark the millennium and his reply was very clear. He thought that the demolition and replacement of all the unsatisfactory tower blocks of the 1960's should be any government's top priority. The recent publication of the report by the Urban Villages Group offers serious and careful alternatives for the enhancement of living and working conditions in our cities. This could be a key to action.

Once the daily lives of the majority are actively improved by better housing and improved infrastructure, then the nation can afford to contemplate the arts and heritage and the building of monuments to ministers. The much lauded *grands projet* in Paris have not grown up without considerable careful redevelopment of whole quarters of the city and a new town programme.

I am sure that Mr Mellor does not need my advice but on the cultural front it might be helpful to widen the discussion beyond provision of new facilities for the performing arts. Both the national opera houses in London need substantial government help; an end to the tedious round of begging should be Mr Mellor's immediate priority. Then a national home for dance is clearly lacking and could easily be provided.

Once he has settled those requirements Mr Mellor must take a look at the visual arts. The nation needs a major, well designed and air-conditioned exhibition space to catch the great exhibitions that tour the world and only get as far as Paris. We need a finely designed Grand Palais in London – so that shows like Gaugin, Seurat and many others do come across the Channel.

There is a real need for more space for contemporary art: the distressing fact that only some 20 per cent of the Tate Gallery's collection can be shown to the public is an indication of how bad things are in that area. At the Victoria and Albert Museum, only a fraction of its great collections can be permanently shown in the main museum. There is clearly scope for some rationalisation of national collections and in fields like architectural drawings there is still no national policy.

Landscape is an area that is not mentioned in the Royal Fine Art Commission's little yellow book, but it is a key area that should not be separated from architecture. It is also an area where the expenditure of a little money could have a big effect. Gardens and landscape need as much help as buildings and artifacts from the heritage funds.

I have a feeling that Mr Mellor is the kind of minister who takes decisions rather than advice. He could give us a welcome break from more committees, quangoes and endless talk about the millennium. Since he is flatteringly being compared with the Medicis by the Royal Fine Art Commission, perhaps he might appreciate the words of Duke Cosimo I de' Medici, when he was trying to stop all the pointless arguments at his Florentine Academy of Design: "His Excellency says to carry on with the work and not with words, and not to pay heed to so much babble and humbug, because that is the way not of getting things done but merely of spreading scandal." Can we expect less talk about the millennium and look to Mr Mellor for more action?

Medicis and the Millennium? July Hillman. RFAC/HMSO £7.95.

Music/Richard Fairman

Aldeburgh Festival

In her autobiography the soprano Galina Vishnevskaya recounts how delighted she was to return to Aldeburgh after years away and find that the town had not changed a bit. There is something about the open fenland and the force of the elements on the wind-swept East coast: life moves slowly here and time encourages contemplation of man's place in the world.

It is difficult to think of a more congenial spot in which to make acquaintance of a new opera by John Tavener. His music also inhabits a time-scale of its own and the very slowness and inaction is intended to bestow upon his work a mood of undisturbed transcendental mysticism, as a remarkably patient Aldeburgh audience found at the premiere of his second opera, *Mary of Egypt*, on Friday.

Its story is the same – unintentionally, one imagines – as Massenet's *Thaïs*. It tells of the prostitute Mary and a holyman, who meet in the desert and through their discovery of each other find their positions in effect reversed, for she knows true goodness, while he only starts to find it through his love for her. As Mother Thekla's text spells out at one point, "there is more than one way to know God".

★

The mood is static, imbued with the sounds and rhythms of religious ceremony. The cast is small; the atmosphere rarified; the manner of composition full of self-imposed restrictions, using an ancient Byzantine hymn as the basis for the whole score. As it happens, these are also the building-blocks of some other stage works that Aldeburgh knows well: Benjamin Britten's Church Parables. But how much more Britten made of his comparable exercise.

All the music in *Mary of Egypt* is derived from two or three phrases. One of them, a simple harmonic minor scale, is repeated so often that one comes out with it going round and round in the brain – a hypnotic effect, as the composer no doubt intended, but one that does not conceal the basic paucity of ideas. Repetition is all there is, occupying vast half-hour swathes at a time. An F pedal runs through virtually the whole of the 100-minute score.

Very little actually happens and Lucy Bailey's production, with designs by Jeremy Herbert, has merely to bide its time with the right aura of mystic grace. It was not entirely the producer's fault that the scenes of temptation were so weak. Tavener provided no more than rhythm-less drumming, at which the dancers, clad in Hare-Krishna orange, regularly became possessed by a desire to lift their skirts and show us their knickers.

Patricia Rozario was the ideal Mary, spinning long, melismatic lines of sultry soprano tone; Stephen Varcoe played Zossima, the holy man, with firm resolution. On-stage and off-stage choruses were taken severally by the Britten-Pears Chamber Choir and the Choristers of Ely Cathedral, while Lionel Friend led the musical performance from the pit. Nothing they did, however, could stop the air of a 1960s "happening."

★

Tavener is the featured composer at Aldeburgh this year and his music turned up again the next night at the London Sinfonietta's concert. With Oliver Knussen as conductor and Christopher van Kampen the cello soloist we heard *The Protecting Veil* Tavener's recent and unexpected cult success. Compared with the opera, this score is positively packed with incident and its luxuriant string harmonies sounded well in the Maltings's glorious acoustics.

For a complete contrast the programme also included the first performance, nearly 70 years after it was written, of *Grohg*, a ballet by Aaron Copland. Violent, jazzy, a riot of activity in which strong musical ideas tumble one over another, this is an orchestral showpiece on the lines of Bartók's *Miraculous Madarin* and the much-enlarged Sinfonietta played it with noisy panache.

In the morning the festival's middle week-end gave a respectful nod to its founder, Britten. None of his five Canticles is without some weakness, but heard together they make a natural recital programme, the very diversity of styles lending strength to the series as a whole. The tenor soloist, who sings in all five, was Adrian Thompson, not an elegant singer, but honest in his instincts and able to allay any suspicion of artifice in the music. Nicholas Clapton and Peter Savidge joined him as counter-tenor and baritone; Roger Vignoles was the pianist, Michael Thompson the solo horn and Skaila Kanga the harpist, able colleagues all.

Patricia Rozario in the title role in Mary of Egypt was ideal spinning long, melismatic lines of sultry soprano tone

Obituary/Noël Goodwin

Charles Groves

The conductor Charles Groves has died at the age of 77. He once said that he regarded himself as more of a GP than a consultant, and thought there were too many conductors aspiring to the latter category at the expense of the former. His career was very much that of the all-purpose music-maker, with no less distinction in his work across a broad spectrum of the classical and modern repertory. In working with every major British orchestra and most of the opera companies, he was utterly professional and totally dependable, as ready (as he said) "to do everything from the *St John Passion* to Messiaen and Stockhausen".

He had notable spells of influential association at Bournemouth, where in 1954 he brought the Bournemouth Symphony Orchestra into being after civic support was withdrawn from the old Municipal Orchestra, and with the Royal Liverpool Philharmonic, 1963-77 (and afterwards as conductor laureate), where he was the first British conductor to perform all 10 Mahler symphonies and to establish a post of associate conductor to encourage younger talent. This interest in developing talent led to his later presidence of the both the National Youth Orchestra and the National Association of Youth Orchestras.

Groves was born in London, and entered music by way of St Paul's Cathedral School and the Royal College of Music. While still at the RCM he was engaged as a freelance accompanist to play for Toscanini's choral rehearsals at the BBC, which he then joined as chorusmaster in 1938. During the war years he was asked to take charge of the Revue Orchestra, and at 28 was appointed conductor of the BBC Northern Orchestra in Manchester. Here he was expected "to do about five concerts a week with no guest conductors" and acquired a broad basis of repertory as a result.

His BBC work brought him into opera by way of several studio productions. He became music director (1961-63) for Welsh National Opera, which he had frequently conducted, and from 1978 he spent two years in charge of English National Opera, where he conducted the complete *Ring* cycle as well as Weber's *Euryanthe*, Verdi's *The Two Foscari* and other major repertory. He withdrew early from his contract on grounds of ill-health, but management problems were a factor.

Groves acknowledged Toscanini and Beecham as formative influences on his conducting craft, and followed the latter in his championship of Delius, making several notable recordings during the 1970s.

He was appointed OBE in 1958 and CBE in 1968, and knighted in 1973.

Opera/Max Loppert

Orpheus in the Underworld

Opera North close their 1991-92 season exactly as they opened it, with a French operetta revival. Last September the choice fell on Chabrier's *L'Etoile*, a gem of zany musical farce which the company *buffed up to a splendid new shine*. At the Bradford Alhambra last Friday they unveiled a new production of perhaps the quintessential work of the entire genre, *Orphée aux enfers*.

★

The good things about the evening start with the decision to perform the operetta in its original version – the small, scabrous two-acter of 1858 – rather than (as more commonly happens) in Offenbach's grossly *overblown revision of 1874*. There is a terrific new translation by Jeremy Sams, which follows his no less terrific *Etoile* text in packing into every number a bundle of saucily singable rhymes (Eurydice sings of the joys of becoming one of Bacchus's "Bacchantes/dancing in my scanties") concealing a considerable amount of style-conscious elegance beneath their impishness.

There is a neat, intimate, on-the-move production by Martin Duncan, in sets and costumes (designed by Tim Hatley) that marry Classical architecture and burlesque. The *temple facade of Act 1* has a wonked pediment and ruched curtains; cut-out sheep, pigs, clouds and other elements of the pastoral are slid on and off with snappy precision.

Mr Duncan and his cast have worked hard on not falling into traditional attitudes of oo-la-la uproariousness in Hades, always a tricky business in English-language performances of Offenbach. Here, the can-can flows out of the final scene with welcome adroitness.

I laughed a great deal: in common the noisily enthusiastic Bradford audience, I had a jolly time. And yet, since I had expected from a new Opera North *Orpheus* something altogether sharper in its sting, I can't conceal a feeling of disappointment.

A perennial problem crops up in the revival of popular works of genius whose satire is, paradoxically, universal and tied to a specific place and time. *Orphée aux enfers* is perhaps the most explosively tight, purposeful send-up of a country's ruling class ever penned, yet *appreciation of its comedy* is bound up with an intimate knowledge of subjects (the Second Empire, Greek mythology) with which most modern audiences have lost direct contact.

★

Mr Duncan's treatment lacks ferocity. He is right not to have gone for the pile-driver underlining of "relevances" *that so disfigured the* ENO's Pountney-Gerald Scarfe *Orpheus*. But the Gods in particular seem to fall a little too easily into postures and routines inherited from *Up Pompeii*: a genuine re-creation of satire has moved out of reach. This has much to do with the cast – on Friday none of the Gods, Jupiter *not excepted*, proved quick enough on the draw, verbal or vocal – but also something to do with Wyn Davies's affectionate but slack conducting, with tempos too often too slow for the sustaining of vital momentum.

Still, five of the players give great pleasure: this Offenbach *vaut le voyage* for them alone. Paul Wade's *daffy yet strangely touching* John Styx is one; Linda Ormiston's Scots-accented Public Opinion, a Morningside lady in tweeds with a mad glint in her eye and to her umbrella ferrule, is a second; and Alan Oke's matinee-idol Pluto, ideally witty in delivery, is a third. Harry Nicoll's slyly sweet-faced Orpheus and Linda Kitchen's *adorably bright, bubbling Eurydice* look and sound so good in operetta that both could spend the rest of their careers thus employed.

Co-production with D'Oyly Carte Opera, sponsored by English Estates; in the Opera North autumn-season repertory from October 14.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

Concertgebouw 20.15 Hans Vonk conducts Netherlands Radio *Philharmonic Orchestra* in works by Stravinsky, Yun and Nono. Eri Klas conducts a different *programme on* Sun (6718 345). Thurs in Muziektheater: Stockhausen's Dienstag aus Licht (6255 455)

■ BARCELONA

Teatro Polyorama has *daily* performances this week of Shakespeare's Macbeth in a production by *Berlin's Schiller* Theater (317 7599)

■ BERLIN

CONCERTS

Seiji Ozawa conducts the Berlin Philharmonic Orchestra in Beethoven's Third Piano Concerto (*Krystian Zimerman*) and Henze's Seventh Symphony, tonight and tomorrow in the *Philharmonie (West Berlin 2548* 8232). Ozawa also conducts works by Berlioz, Bizet, Debussy and Ravel at Waldbühne on Sun (3019 999). Marjana Lipovsek sings Wagner's Wesendonck Lieder in a concert with the CPE Bach Chamber Orchestra tomorrow at the Schauspielhaus. Sun: Mass for Rossini (East Berlin 2090 2156)

● Eric Clapton and Joe Cocker *in concert tonight* at *Waldbühne* (West Berlin 3019 999)

OPERA/THEATRE

Siegfried Matthus' new chamber opera, Desdemona und ihre Schwestern, has its first Berlin performance on Sat at the Komische *Oper, in a production* by Götz Friedrich first seen last month at the Schwetzingen Festival (East Berlin 2292 555). Ute Lemper stars in The Blue Angel at the Theater des Westens, daily from tomorrow (3190 3193)

■ BONN

Margaret Price, accompanied by Graham Johnson, gives a *song recital at Bonn's opera* house tonight at 20.00. Tomorrow and Fri: Die Walküre with Eva *Marton and Simon Estes.* Sat: Simon Boccanegra. Thurs in Beethovenhalle: Gidon Kremer plays Beethoven's Violin Concerto (773667)

■ COPENHAGEN

Tivoli Koncertsalen 19.30 Gösta Winbergh and Ingvar Wixell are soloists in a programme of songs and arias with the Tivoli Symphony Orchestra. Tomorrow: Swedish Radio Chorus. Fri: jazz night. Sat and Sun: Gothenburg Symphony Orchestra. The season continues till mid-September (3315 1012)

■ LAUSANNE

BEJART BALLET LAUSANNE

Maurice Béjart's latest dance creation, entitled Mr C (music *by Charlie Chaplin), can be seen* this week and next in a double bill with his 1959 choreography of Le Sacre du printemps (June 26, 27, 30 and July 1). Two other Béjart works feature alongside Le Sacre in an alternative *programme (June 24, 28, July* 2), and there will also be a programme of choreographies *by members of the company* (June 27 and 29). These are the final performances of Béjart Ballet Lausanne, which will be replaced next season by a ballet school to be known as Rudra Béjart Lausanne, with about 20 dancers – a third of the size of the present company (021-317 2087)

■ LONDON

Royal Festival Hall 19.30 Mark Elder conducts English National Opera Orchestra in works by Vaughan Williams, Elgar and Tippett. Wed and Sat: Christoph von Dohnanyi conducts the Philharmonia. Thurs: Ravi Shankar. Fri: Poulenc *programme* (071-928 8800)

Queen Elizabeth Hall 19.45 Kenny Wheeler, Ralph Towner and Gary Peacock: three major jazz figures give their first London concert together. Tomorrow: Orchestra of Age of Enlightenment. Thurs: Louis Armstrong anniversary concert. Fri: Brigitte Fassbaender recital (071-928 8800)

Barbican 19.45 Charles Dutoit conducts Montreal Symphony Orchestra in Falla's Three Cornered Hat (Jill Gomez) and Tchaikovsky's Fifth Symphony. Tomorrow: Jewish soul music. *Wed: Rostropovich gives world* premiere of Andrzej Panufnik's Cello Concerto. Sun and next Mon: Bernstein's On the Town (071-638 8891)

Covent Garden 19.30 Samson et Dalila (with Domingo, repeated *on Wed with Vladimir Popov)*. Tomorrow, Fri, Sat: Don Pasquale. Thurs: Der fliegende *Holländer (071-240 1066)*

■ MILAN

Teatro alla Scala 20.00 Viktoria Mullova is soloist in Berg's Violin Concerto, in a programme including works by Bach/Webern and Donatoni conducted by Zoltan Pesko. Sat: Riccardo Muti *conducts first night of Werner* Herzog's new production of La donna del lago. Sun: recital by *Kathleen Battle* (7200 3744)

■ NEW YORK

DANCE

Kirov Ballet opens a two-week New York season tonight at the Metropolitan Opera House with the first of three performances of Swan Lake. Thurs, Fri, Sat: American premiere of Lavrovsky's Romeo and Juliet, staged by Oleg Vinogradov (362 6000). The final week of the NY City Ballet season at State Theater (tomorrow till Sun) features Mark Morris' new solo work on Wed and Sat, danced by Mikhail Baryshnikov (870 5570)

■ PARIS

DANCE

Tonight at Palais Garnier, Ballet *de l'Opéra de Paris presents* choreographies by Neumeier, Petit and Lander, also Wed. July 8-25: Swan Lake (4017 3535). Tomorrow at Théâtre de la Ville: Pina Bausch Dance Company opens a two-week season (4274 *2277)*.

OPERA

Myung-Whun Chung conducts Petrika Ionesco's *production of* Otello tonight at Opéra Bastille (4001 1616), with Vladimir Atlantov, Justino Diaz and Kallen Esperian, also Wed, Sat and next Tues (Domingo sings the title role on Wed and next Tues). Maurizio *Barbacini* conducts Michael Hampe's Cologne production of two Rossini comic *one-act operas tonight* and Wed at the Opéra Comique (4286 8883). Tomorrow and Thurs in Palais Garnier: Il barbiere di Siviglia (4017 3535). Fri at Châtelet: John Eliot Gardiner conducts first of five performances of Così fan tutte (4028 2840).

CONCERTS

At Salle Pleyel tomorrow, Felicity Lott sings Mozart arias in a concert conducted by Armin Jordan (4561 0630). Thurs: Semyon Bychkov conducts Orchestre de Paris in works by Ravel and Dutilleux (4563 0796). Thurs at Salle Gaveau: Ruggero Raimondi (4953 0507). Fri at Bastille: Marek Janowski conducts *Bruckner's* Eighth Symphony (4001 1616). Fri at Basilique de Saint Denis: James Conlon conducts works by *Poulenc and Gounod* (4230 2308).

■ STRASBOURG

STRASBOURG FESTIVAL

Jean-Pierre Rampal plays baroque flute concertos in tonight's concert by the Franz Liszt Chamber Orchestra at the Palais de la Musique. Wed, Fri *and Sun in Théâtre Municipal*: Friedrich Haider conducts Tobias Richter's new production of La traviata, with Sally Wolf as Violetta. Thurs in Eglise Saint-Pierre le Jeune: James Bowman is soloist in a programme of vocal music by Vivaldi, Monteverdi and Pergolesi.

The festival runs till July 4 (8832 4310)

■ VIENNA

Staatsoper 19.00 Bruno Weil conducts Don Giovanni. Tomorrow: La forza del destino. Wed: Tannhäuser. Thurs and Sun: Minkus' ballet Don Quixote. Fri: Cerha's Baal. Sat: Tristan und Isolde (51444 2960)

■ ZURICH

Opernhaus 20.30 Hermann Prey sings Winterreise. Tomorrow and Sun: Baltsa sings Carmen. Wed and Sat: Capriccio. Thurs: Cranko production of Romeo and Juliet. Fri: La bohème (262 0909).

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week – a joint FT/CNN production
1800-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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Monday June 22 1992

President John Major

LAST WEEK'S Irish referendum result gives a reprieve, but not yet definitive salvation, to the project for European union embodied in the Maastricht treaty. It does not even restore the *status quo ante* June 2. The unexpected Danish No vote on that date, however narrow, continues to affect the climate and agenda of the entire EC in a way that the expected Irish Yes vote of last Thursday, however overwhelming, cannot do.

At the end of this week the EC's political leaders will gather in Lisbon for the first post-Maastricht meeting of the European Council. Before June 2 it had been understood that the main business of this meeting would be to consider the modalities of negotiations with would-be new members. Britain, which takes over the presidency next week, would still like to press ahead with that discussion and to fix the opening of the actual negotiations early in the new year. British governments have consistently supported the enlargement of the EC, which fits with their vision of it as an open free-trade area, and have made themselves strenuous advocates of its extension, at a later but not too distant date, to former communist countries in central and even eastern Europe. The thought that new members might have difficulty in accommodating themselves to a tightly integrated political and monetary union is, in British eyes, a pro rather than a con.

Shared misgivings

British logic therefore sees the Danish revolt against Maastricht as no obstacle to the enlargement process. On the contrary, it makes sense to deal with both problems at once, since Danish misgivings about an over-centralised Union are likely to be shared by fellow Scandinavians. But precisely for that reason other governments, which regard making a success of political and monetary union as the priority, insist that negotiations with new members cannot start until the Maastricht treaty is safely ratified, so that applicants know what it is they are applying to join.

That view seems likely to command a majority, and Mr John Major may therefore not be able to devote his presidency to the enlargement issue, as he had advertised his intention of doing.

If in the end Maastricht does unravel – either because the French use their referendum to dispose of President Francois Mitterrand in the way they once disposed of Charles de Gaulle, or because the German *Länder* make themselves the spokesmen of increasingly widespread public anxiety about the demise of the D-Mark, or even (just conceivably) because the opposition joins forces with Tory rebels to force a referendum in the UK – then indeed it will make sense to involve the candidate countries in discussion of what, if anything, is to take its place.

Intense suspicions

Mr Major might then find ways to turn the unravelling to his advantage. But he cannot be the one to unpick a knot which he himself tied. Domestically, he cannot afford to denounce an agreement he once described as "game, set and match to Britain"; and in the Community he cannot afford to nourish the intense suspicions harboured by so many of his partners about the sincerity of Britain's commitment to European union in any form.

Much of the next six months will inevitably be devoted to efforts to preserve Maastricht, by devising formulae to placate the Danes and other Eurosceptics, while at the same time inventing legal artifices to enable eleven member states to implement the treaty without Denmark if that proves unavoidable. Much time will also have to be devoted to the Community budget.

Yet the EC must not fall into the trap of imagining that the world will stand still while it wrestles with its internal problems. If it does so it will fail lamentably in dealing with the countries to its east, where the economic and political disintegration is proceeding at an alarming pace; and it will fail, above all, in reaching a solution to the impasse in GATT, a crisis more immediate and as urgent as anything involved in Maastricht.

As an experienced global power, Britain should be well placed to take the lead in dealing with this external agenda, provided it can disarm its partners' suspicion that it is using external problems to block or derail the longer-term process of integration.

Regulating the water industry

MR IAN BYATT, the UK water regulator, has acquired a reputation as the most interventionist of the utility regulators. This is entirely appropriate in an industry which lacks even the measure of competition existing in other utilities, where gas, for example, competes with electricity, BT with Mercury. The water companies can point to considerable benefits from privatisation: record levels of investment; fast-improving water quality; and better service. But with little potential to increase competition, only assiduous regulation can defend consumers against monopoly abuses.

There has been no shortage of reasons for the regulator to intervene. Price rises averaging 6 per cent a year over the rate of inflation produced profit increases last year in double-digit percentages. Most companies have increased prices less than the permitted maximum this year, but only with bad grace after Mr Byatt warned that excessive profits would bring nemesis. While shareholders have enjoyed rising dividends, many drought-stricken parts of the country are enduring hosepipe bans and other restrictions on the use of water.

Water company chairmen and chief executives – probably underpaid when nationalised – have tripled their salaries since privatisation with scant regard to public relations. The level of disconnections to collect unpaid bills has climbed steeply, with the most ruthless company 300 times more likely to cut off a non-paying customer than the least. Ambitious plans to use monopoly profits from water supply for acquiring businesses such as waste management have had to be squashed.

Tinkering rejected

This suggests considerable scope for tightening the regulatory regime when the present arrangements are reviewed in 1995. Mr Byatt has rightly rejected immediate tinkering on the grounds that the £28bn investment programme would be undermined by a return to the short-termism prevalent when the industry was nationalised. But he has issued a stream of position papers on the options for 1995, inviting debate in the industry and among water users

The most important of his proposals is to set the companies' price cap formulae in the light of their rate of return on capital. He has suggested that current rates of return are too high for low-risk utilities. While there is room for debate over the targets, Mr Byatt is undoubtedly right to form a view about appropriate rates of return in the absence of competitive pressure.

Environmental objectives

Mr Byatt has also questioned the cost of environmental improvements imposed on the companies by the EC and watchdogs, such as the National Rivers Authority. Meeting EC targets for levels of nitrate and pesticide residue, for example, is already costing £1.8bn – to achieve standards of water purity the value of which is a matter of controversy. The NRA's chairman, Lord Crickhowell, wants to accelerate the already ambitious programme for reducing river pollution. And last week, he urged companies to reduce the rate of extraction from 40 depleted rivers. Such environmental objectives have merit, but decisions must be taken only after thorough cost-benefit analysis.

Finally, Mr Byatt has urged that domestic water users should pay for the amount of water they use, rather than the present flat-rate charge, based on house values. The case for metering is strongest in the south and east of England where ground water reserves are so depleted that shortages would long outlive an end to the drought. Grandiose schemes to bring water from the wetter north are under consideration, though a national grid would be ruinously expensive. More promising returns are available on investment in modernising mains, which lose almost a quarter of the water they carry through leakage. However, metering, almost universal among other European countries, offers the only hope of choking off the inexorable rise in demand for water in areas of shortage. It will have to be introduced.

Mr Byatt has shown commendable initiative in raising these issues and in cajoling the industry into meeting its social obligations. The water companies may squirm and protest, but consumers are in no mood for compromise.

Israel's politicians are preoccupied with past disputes ahead of tomorrow's general election, says **Hugh Carnegy**

Loss of direction at the crossroads

The campaign for tomorrow's general election in Israel has been dominated by old wars, old men and old insults. Strangely lacking has been a serious debate about the immense changes the Middle East has undergone since the last election in 1988.

The Soviet Union, for decades the main sponsor of Israel's Arab enemies, has withered and died. The US, Israel's guardian ally, is pre-eminent in the region. Saddam Hussein's Iraq, only two years ago a powerful and ominous shadow to Israel's east, has been vanquished in a war in which Israel was a de facto ally with its greatest foe, Syria, and other Arab powers.

For the first time, Arab nations have come to the negotiating table for peace talks constructed by the US on terms largely favourable to Israel. The Palestine Liberation Organisation has been kept at arms length and has accepted that any discussion of Palestinian independence be postponed for at least three years after an interim stage of limited self-rule is agreed, something it used to reject outright.

But rather than address these remarkable developments, the ruling Likud party, led by 76-year-old Mr Yitzhak Shamir, has preferred to spend the campaign maligning the opposition Labour party as a pro-Arab nest of Bolsheviks. For its part, Labour has wallowed in the military record of its 70-year-old leader, Mr Yitzhak Rabin, chief of staff during the triumphant Six Day War 25 years ago this month.

There have been many slogans, but precious little real discussion about the great strategic and economic challenges facing Israel as a consequence of the events of the past few years.

The disappearance of Soviet influence, coupled with Washington's growing strategic interest in the Gulf, has undermined the link to the US. This was sharply illustrated in the acrimonious breakdown early this year of Israel's appeal for $10bn in US loan guarantees to aid the absorption of mass immigration from the former Soviet Union, itself a consequence of Moscow's collapse.

The prospect of diminishing access to US aid has highlighted the failure by Israel to achieve a flourishing, independent economy to take advantage of the demographic "critical mass" Russian immigration offers Israel. The lack of significant growth has led thousands of Russian Jews to suspend plans to emigrate, a damning judgment for Israel on the relative economic outlook in the two lands.

Above all, the peace talks launched last October in Madrid, though slow to gain momentum, will before long require Israel to make the tough choices about its future it has avoided since 1967. It will have to decide what to do about the West Bank, the Gaza Strip and the Golan Heights – to say nothing of East Jerusalem – all captured from Jordan and Syria and most of which the international community, including the US, expects Israel to yield in exchange for peace.

Labour has pledged to drop Likud's commitment to hold all the territory in perpetuity. It promises to push ahead with the peace process. But it has avoided giving any detail about its intentions. Mr Rabin has made his election pitch more an attempt to steal the clothes of the Likud than to blaze a path to the future.

"If you look at the television campaigns, the slogans in the newspapers and so on, it seems as if they are debating the past and not the present," says Mr Arye Na'or, a former cabinet secretary to Menachem Begin, the late Likud premier. "The leaders believe the nation is not ready to draw the consequences of the changes in the world and they do not pave the way."

Mr Na'or decries this lack of leadership. But he shares the belief that the Israeli people are largely unmoved by the great events of the past few years, distrusting the motive of the Arabs in coming to the peace talks. "They continue to see the walls of the siege and they don't see the windows of opportunity in the walls."

But is this really so? Many Israelis clearly do perceive that the country is at an important crossroads. Mr Na'or himself is among those who feel a great opportunity is being presented to Israel which the government should not fail to grasp. Opinion polls have shown consistently strong support for the Madrid process, even among Likud supporters whose leaders remain steadfastly opposed to the "land for peace" formula upon which it is based.

Some younger Israelis think the problem lies not just in the unbending ideology of Mr Shamir and the Likud, but in the continued domination of the old generation of politicians whose thinking remains anchored in the traumatic past of the Nazi holocaust, the battle to establish Israel in 1948 and the wars which followed.

"I am afraid that where we used to be the rational ones, and the Arabs irrational, we have now become irrational and the Arabs rational in assessing the situation in the Middle East," said a prominent young Tel Aviv businessman in private conversation recently.

It is among businessmen, especially those involved in exporting, that the importance of taking advantage of the Madrid peace talks is often most clearly advocated. Aside from the political benefits, they can see the rewards from the opening of markets – closed until now – in Israel's natural Middle Eastern hinterland and the elusive inward investment that could be unlocked by political stability.

The economic future of Israel has probably never been more intertwined with the political. As the US loan guarantee issue showed, the country's longstanding reliance on foreign aid, overwhelmingly from Washington, is set to be tied more closely to the government's policies towards the peace process.

This has occurred just as Israel has to find the resources to cope with the flood of immigration which has already increased the population by about 400,000 to 5m in the space of two years. So far the record is not encouraging.

Despite a construction-induced boom last year, real industrial growth has failed to take off, leaving overall unemployment at a record 11.5 per cent of the workforce and more than one third of immigrants without a job. Immigration has slumped, putting in jeopardy the Zionist dream of attracting more than 1m Russian Jews to strengthen the country demographically and drive the economy forward.

Much of the blame is put down to a lack of radical reform of the domestic economy in which the government is still an all-powerful player. "Nowhere in the developed world is government still so involved in the control and allocation of resources as in Israel," says Mr Stephen Plaut, a business economist at Haifa University. "The direction of change is very slowly in the right direction, but it is very, very slow. I think we still need a quantum leap."

He says without long-term growth, not only will the goal of attracting immigration fail, but the burden of supporting Israel's large defence commitment – almost 20 per cent of GNP – will become more difficult to sustain. "In Israel, if the economy is inefficient it is a strategic problem. A lack of growth is destabilising because it tempts the other side into seeing us as weak."

Both the Likud and Labour are committed publicly to accelerating market reforms. But neither has articulated any detailed economic programme during the election campaign.

There remains the suspicion that their vested political interests in the old system will continue to erode their commitment to reform. Labour is still bound to the Histadrut trade union federation, the power of which depends largely on the economic status quo, while the Likud has long exploited government patronage to channel favours to its bedrock constituencies.

Even if the main parties finally do enact domestic reform, it may not be enough. "The economy of Israel is going to be handicapped until we have a real peace process," says Mr Aharon Dovrat, former chief of Clal Industries and now head of his own investment house. "We should move much more aggressively than we have up to now."

What are the prospects, then, for a break in the logjam on Tuesday, given that in Israel no party ever wins an outright majority?

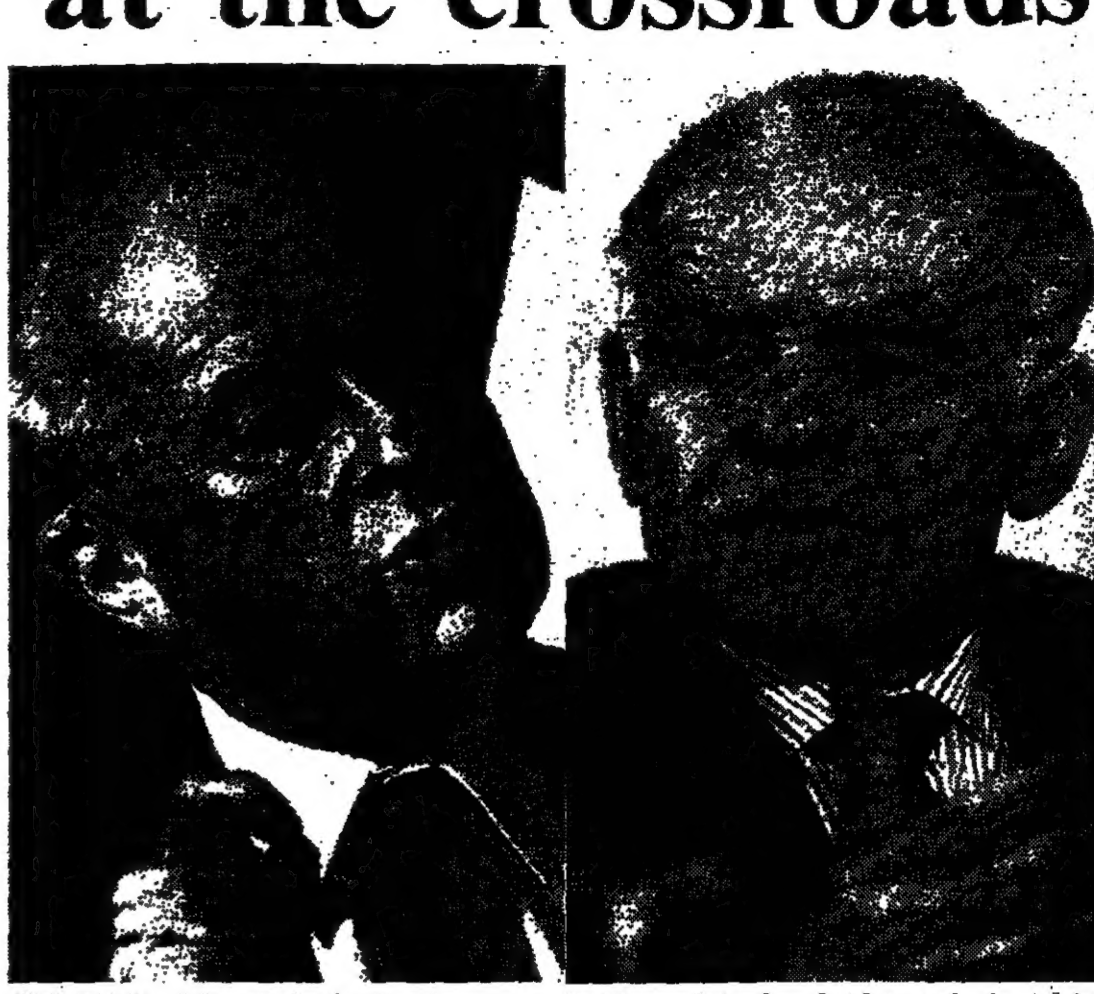
Labour is hoping that public support for the peace process, coupled with frustration over Likud's ambiguous attitude towards the negotiations and its dismal economic record, will translate into the most significant pro-Labour swing since Likud came to power in 1977. In theory, that could lead to a Labour-led coalition excluding the Likud which would shed its pre-election reticence and move forward boldly to unlock the peace process.

But that remains an unlikely scenario, unless the opinion polls are underestimating support for Labour and its small party allies. Indeed, polls suggest Mr Shamir might be able to reconstruct his coalition of Likud, extreme right-wing and religious parties. In that case it is hard to see how the peace talks could advance, given the extreme right's objection even to Palestinian autonomy.

The decisive question in the intense coalition bargaining that will start on Wednesday will be what Mr Rabin and Mr Shamir both want. Mr Shamir is unshakeable in his opposition to giving up territory. He is, according to colleagues, very concerned that even conceding autonomy could lead ultimately to that end. But he has to take into account not only the strong support for the peace process within Likud, but also the immense, perhaps unbearable, international pressure Israel would come under if it withdrew from the talks.

At the same time, Mr Rabin is concerned not to expose himself to all-out opposition from the right if he goes ahead with negotiations. He would prefer to take the Likud with him into an interim settlement on the occupied territories, leaving aside underlying ideological differences on the issue of "land for peace" until final settlement talks begin several years down the road.

Thus many Israelis believe the next government will be a Labour-Likud coalition of the type which was in office from 1984 until 1990. However, the "National Unity" governments proved more a formula for paralysis than progress, both domestically and externally. There is no guarantee it would be any different again, despite the existence this time of a mechanism for peace talks.



Yitzhak Rabin, left, and Yitzhak Shamir are committed to market reform but have not set out details

Samuel Brittan

Case for Russian 'dollars'

In an article on January 20, I suggested that the use of western hard currencies – usually known generically as "dollars" – in the former Soviet Union was a useful lubricating agent in restarting the market economy before governments were able to launch a successful reform of local currencies.

Dollars, I remarked, would draw tropical fruits from the Siberian tundra. Instead of frantic attempts to clamp down on their use for such purposes, secondary western currencies, I concluded, should be encouraged; and the west should even help to provide some more.

The suggestion was treated with deafening silence by the travelling army of advisers now swarming over the former communist world. I sensed I had broken a taboo of some sort. The silence has been broken by three economists, one from the University of London School of Slavonic and East European Studies and two from Kingston Polytechnic who have explained why the taboo should be disregarded.*

The orthodox theory is straightforward. If a substitute for the local currency – say the rouble – becomes more easily available, the desire to hold it declines. Or to put it the other way round: the velocity of circulation of the rouble increases. As the increase in the money supply in such countries depends almost entirely on the government's deficit, the rate of inflation in roubles will – other things being equal – increase, thus making the inflation problem worse.

The fallacy of the orthodox theory is that other things are very much not equal. The first thing that is not equal is the level of output. Although monetarists inveigh against high inflation, they tend in their mathematics to overlook its effect on real output.

The paper's authors remind us of some of the adverse effects of high and variable inflation. There is enormous information loss as economic agents become confused about how far any particular price rise represents a relative change and how far just general inflation. Thus the price mechanism loses its ability to co-ordinate economic decisions and the level of output falls. The use of secondary western currencies can enable a price mechanism of sorts to function.

But that is not all. In the absence of western secondary currencies,

Dollarisation is in line with local habits and there is a presumption in favour of it at least as a transitional device

commodities such as vodka or cigarettes come to be used as money; their price relative to other goods is further distorted; and the commodities themselves are taken out of normal circulation. If land is held as a store of value, building may be held down as an impediment to its easy transferability.

The authors discuss a possible compromise well known from Latin American experience, that is to use a foreign currency as a unit of account, but to make payments in the domestic currency at the current rate of exchange. However, it is more convenient for all concerned to be able to use the same currency both for making a contract and for settling it, thereby saving on transaction costs.

Another compromise is the indexation of contracts. Although better than nothing this too has disadvantages. For the more that prices are automatically marked up in line with a general price index the less scope there is for relative price changes, which again inhibits the functioning of the price mechanism. Indeed, indexation may be more expensive in terms of real resources. In Poland before the currency reform, hard currency transfers, which were the source of the economy's "dollarisation", accounted for considerably less than 3 per cent of GNP. In Brazil, by contrast, widespread indexation and high inflation resulted in the expansion of the banking sector from 5 to 13 per cent of GNP in the 1980s.

There are many more subtle effects. In high inflation countries over half the real money supply may be in hard currencies. But if dollar transactions are illegal, they will not be taxed. Making them legal reduces the budget deficit even in terms of the local currency.

Tolerating dollar transactions need not prevent an eventual currency reform. It can even help credibility. For if local citizens are not forced to hold roubles as a store of value they will be less inclined to suspect that the government will deliberately resort to inflation as a way of taxing these holdings.

Of course, dollarisation is not a panacea. It does not get round the big political and institutional difficulties involved in privatisation and price reform. Nor does it create resources out of thin air. But as it is in line with local habits and inclinations there is a presumption in favour of it at least as a transitional device. Indeed there may be a case for western governments providing hard currencies not just as a stabilisation fund or for governments to use in buying imports, but directly in loans to local business to put into the circulation. A little unorthodoxy can go a long way.

* *P Auerbach, G Davison and J Rostowski, Secondary Currencies and High Inflation, Centre for Economic Performance, LSE.*

A velvet divorce, but a rough road to single life

The Czech and Slovak republics will face difficult challenges after separation, write Anthony Robinson and Ariane Genillard

The federal parliament which convenes today in Prague will almost certainly be the last. Only the unlikely prospect of a popular revolt against the decisions of its recently elected political leaders can now save the Czechoslovak federal state.

A new interim federal government, to be made up of Czechs and Slovaks in equal measure, will oversee the separation of the state, which was formed in 1918. Its function will be limited mainly to overseeing an orderly transition of federal powers to the Czech and Slovak national parliaments by September 30.

The dissolution of the post-communist state of Czechoslovakia, which was regarded as perhaps the most promising candidate for full European Community membership, will have repercussions well beyond its borders. It is further evidence that the fragmentation of Eastern Europe, most tragically experienced by Yugoslavia, is continuing.

The decision by the two republics to divorce, taken in the early hours of Saturday morning, comes only two weeks after general elections which revealed the strength of Slovak resentment against the government in Prague. Rejecting arguments that Slovakia's future will be best assured by firm linkage to the Czech economic locomotive, 60 per cent of the electorate voted for parties which were either nationalist, or socialist, or both.

That vote provided the mandate with which Mr Vladimir Meciar went into the talks. The former boxer is the leader of the nationalist Movement for a Democratic Slovakia which played on the resentments of Slovaks and emerged as the largest party in the republic. But although Mr Meciar went into the post-electoral talks on Czechoslovakia's future as spokesman for the aggrieved party the terms of the proposed divorce bear the strong imprint of the Czech leader, Mr Vaclav Klaus.

Before the elections, Mr Klaus, the former federal finance minister whose Civic Democratic party (ODS) has become the dominant party in the Czech republic, openly rejected any "soft options" such as a looser confederal structure. At the first round of talks in Brno, between Prague, the Czech capital, and Bratislava, the Slovak capital, he rejected Mr Meciar's proposed "defence and foreign affairs community." Having received a mandate in the Czech lands for tight monetary policy, rapid privatisation and a market economy, Mr Klaus turned a deaf ear to Slovak demands for its own central bank and requests for federal funds.

Mr Klaus argued that both sides should either agree on a smaller but more effective federal government dedicated to market-orientated economic reforms or on a quick divorce. In the event Mr Meciar, had to agree to the latter. After more than a thousand years of domination by Hungary, followed by a six-year interlude as a puppet state of the Axis powers during the second world war and Stalinist industrialisation after the war, Slovakia is therefore faced with the challenge of independence.

It is a daunting prospect. It raises questions about the republic's political and economic future and its role in the new Europe. Moreover, not all of Slovakia's 5m citizens are ethnic Slovaks. There is a restive 600,000 strong Hungarian minority and smaller groups of ethnic Poles and Germans.

An independent Slovakia would be hard pressed to sell its products in western markets

One of the principal demands made by Slovak nationalists is for Slovakia to enter the European Community as a sovereign state in its own right. But that depends more on Brussels than Bratislava. The likelihood is that the western Czech lands of Bohemia and Moravia, freed of the need to subsidise the economically weaker Slovakia, will now move faster on economic and other reforms. Such policies should allow them to fulfil the preconditions for membership of the EC while Slovakia, with its inefficient heavy industries, risks sliding backwards economically.

Politically, too, there are fears over Slovakia's future. Mr Meciar's tight control over the media and jibes against the Hungarian minority during the election campaign are warning signs which have been noted by the Christian Democrat and other opposition parties during recent weeks.

The international implications of the division of Czechoslovakia into two sovereign, internationally recognised states will affect all international treaties and agreements concluded by the Czechoslovak state – including the recently signed association agreement with the EC and membership of the International Monetary Fund and the General Agreement on Tariffs and Trade. The details of divorce will also require agreement on the division of responsibility for Czechoslovakia's $9.1bn net foreign debt, as well as the domestic debt and agreement on distributing assets.

Some issues are likely to be more fraught than others. At present, for example, over 80 per cent of Czechoslovakia's 12m tonne annual oil consumption is imported through the Druzhba pipeline which runs across Slovak territory from Russia. It terminates in the Slovnaft refinery, just outside Bratislava.

An independent Slovakia will seek higher transit and refining fees from the Czech lands. To lessen its dependence both on Soviet sources and Slovakia, however, the Czech republic has already made plans to build a new 3.4m tonne capacity pipeline to bring oil from Trieste.

One of Bratislava's main economic complaints against Prague is that recent economic reform measures – in particular freeing of prices – have hit doubly hard in Slovakia. Officials in the Slovak industry ministry say that because the republic is a supplier of components and semi-finished steel to Czech factories, and because the products from Slovak factories are in many cases still price-controlled, Czech factories receive artificially cheap Slovak products which they then sell for valuable hard currency.

The collapse in trade between the former Comecon states which followed the shift to dollar pricing provides a warning about what could happen if the political and economic links between the two republics are severed. An independent Slovakia would be hard pressed to sell its products to the west, except at extremely low prices made possible by a devalued currency. Potential markets to the east have no money.

But this is a dangerous part of the world in which to be small and poor. The border between Hungary and Czechoslovakia was defined after the first world war by the Treaty of Trianon under which Hungary, as part of the defeated Austro-Hungarian empire, was much diminished. More than 5m Hungarians now live outside Hungary's borders. If they are made to feel second class citizens in an independent Slovakia the Hungarian minority may to press Budapest to demand some form of protectorate or even a renegotiation of the borders which would bring them back into Hungary.

That could open a Pandora's box of similar claims from Poland and the Ukraine which would further destabilise a region already apprehensive about the future.

OBSERVER

Red carpet for the poor

■ The only sort of tourists most cities seem to go out of their way to welcome are rich ones. But Paris, to its honour, is bucking the trend.

The city hall, ministry of tourism and holiday operators are gearing up to welcome at least a million impoverished east Europeans over the next few weeks. Having been taken aback 12 months ago when the lifting of visa restrictions suddenly brought a huge influx, especially of Czechs and Poles, they're determined not to be caught again.

Being too poor to afford hotels and restaurants, many of last year's eastern visitors ended up sleeping and grabbing the odd meal in vans and buses. On some August days, more than 1,200 such vehicles from various sources were parked in central Paris, often hampering access to the most popular sites.

Other visitors, still poorer, just pitched a tent wherever they could. As a result, Mayor Jacques Chirac complained to the head of the Paris police about hundreds of illegal campers regularly staying by the Eiffel tower.

To help those arriving this time, the city tourism office is ready to hand out lists of cheap hotels, restaurants and camp-sites specially printed in Hungarian and Russian as well as Polish, Czech and Slovak. It has also produced 10,000 Paris guides in the last three of those languages for distribution to tour operators in the east.

True, the expected 1992 influx is unlikely to have much to spend either. Nor, even without them, would France go short of its vital tourist trade. In all, visitors last year almost matched the country's 56.5m population – there were 62m of them, nearly a sixth of them going to Paris.

But the city is looking ahead. If east Europeans see a red carpet awaiting them as they are now, it believes, they'll return when they're richer in future years.

Continental drift

■ The front cover of WPP Group's annual report talks of "the management of the imagination". Imagination is clearly necessary to read the report of the marketing services group, currently in the throes of a refinancing.

A map showing the company's worldwide operations has lines of longitude and latitude, an equator and two tropics, but no land masses. There are just numbers locating the offices – 64 of them from Argentina to Vietnam – floating on a white page.

Early warning

■ In 1957 a young entrepreneur called Captain I R Maxwell asked the New York end of accountants Price Waterhouse if it would be willing to audit the books of his newly formed Pergamon Institute, headed by Sir Robert Robinson OM – one of Britain's leading scientists.

Before it would accept the assignment, PW New York asked PW London for its opinion of Sir Robert Robinson and Captain Maxwell. Not much was known about Sir Robert, but his Order of Merit impressed PW London. Sir Robert was "clearly a scientist of great repute" and the OM "is rarely given and then only to individuals who have given great service to the country", gushed the anonymous London partner.

But the Captain was another matter. "I must admit that I never took a great liking to him and he always appeared to be somewhat of a mystery. Altogether my advice would be to go slow about accepting any work of a recurring nature from him."

"I hope we don't get transferred to Canary Wharf"

Fresh face

■ If Conservative party rumours are to be believed John Major is toying with the idea of making Sarah Hogg, boss of his policy unit, governor of the Bank of England after Robin Leigh-Pemberton. But if a woman can make it into the Old Lady why can't a foreigner?

It would certainly widen the catchment area and provide a welcome breath of fresh air. After all if the Central Statistical Office can recruit Australian Bill McLennan, why can't the authorities show the same sort of adventurousness in choosing the next governor?

One candidate who springs to mind is Donald Brash, New Zealand's central bank governor. He has reduced inflation to under 1 per cent well ahead of the end-1993 deadline set by his official paymasters. He has also succeeded in halving his bank's staff in the past few years – an achievement that should impress ministers.

Another advantage – apart from Brash's good record as a public speaker – is that he will be free for the job. His term of office ends in August next year, precisely two months after the Threadneedle Street job becomes vacant.

Name game

■ Greece's determination to lay claim to the name Macedonia and keep it out of the grasp of the former Yugoslav republic knows few bounds.

Having launched an international campaign to publicise the tourist attractions of its own Macedonia, the Greek government has now begun to repaint its assets to make the point.

Spotted at Paris's Orly airport last week: a state-owned Olympic airliner resplendent in new livery, and proudly bearing the name Makedonia in foot-high lettering on its nose-cone.

High and mighty

■ "Since you'll have to wear breeches at banquets," the duchess told a candidate for a footman's job, "please roll up your trousers and let me look at your calves."

When he had done so, she added with a nod: "And as you'll be wearing a kilt when we're in Scotland, roll them up further and show me your knees." He obliged, and she nodded again. "Fine – all that remains is for me to see your testimonials," she said.

"Now if only I'd had a better education," the would-be footman thought later, "I would have got that job."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Accuracy of retail sales statistics

From Mr R M Norton.

Sir, Mr Roger Saoul claims ("Appeal should be for better statistics", June 18) that the official retail sales statistics are, and have been for some time, misleading. This is not so and he will be glad to hear of the progress we are making.

Until the end of last year, the official monthly retail sales index was based on a voluntary inquiry addressed to about 3,500 retailers covering about 60 per cent of retail sales. This provided a generally sound indicator but did have some weaknesses. In particular, a small number of large retailers chose not to take part and it was difficult to achieve a statistically sound sample if we had to rely on the co-operation of volunteers.

From January 1992, the inquiry was made compulsory and the panel extended to comprise a carefully selected sample of 5,000 retailers of all types and sizes covering around 70 per cent of total retail sales. All large retailers are required to contribute and the sample is more truly representative. Results from the new inquiry were introduced when the April estimate was published last month.

There will be further improvements to the system of retail sales statistics. We are about to launch a quarterly inquiry to large retailers to collect information on sales by different product categories. We shall also be pursuing the possibility of a better breakdown by types of business to improve the usefulness of the detail currently published monthly.

R M Norton,
Central Statistical Office,
Government Buildings,
Cardiff Road,
Newport,
Gwent NP9 1XG

Demise of NEDC leaves UK without means for valuable industrial dialogue

From Mr Andrew Britton.

Sir, I am glad that Samuel Brittan (Economic Viewpoint: June 18) did not cheer the demise of the National Economic Development Council. It needed reforming, of course, but not abolition. The council, and its many working parties, have brought together national representatives of industry, trade unions and consumer interests to exchange views and also on occasion to agree action. Other European countries all seem to find dialogue of some kind valuable, and it could have been made more effective here. In one form or another consultation and dialogue surely must take place, and it is up to government to decide how it should be organised.

The research activities of NEDO, on the other hand, can readily be taken over by the private sector. Indeed the public interest may be better served by sponsoring independent research. This is the sort of pattern followed in Germany and in most countries of continental Europe. As Samuel Brittan says, what is needed is not just routine economic forecasting but "research into the obstacles to growth" and how they can be overcome. The National Institute of Economic and Social Research has been following such an agenda since well before NEDO was founded. We have benefited from co-operation with NEDO over the years. Now we must try to fill some of the gap that will be left when it goes.

Andrew Britton,
National Institute of Economic and Social Research,
2 Dean Trench Street,
Smith Square,
London SW1P 3HE

From Mr Stuart D Hollander.

Sir, I have worked on various projects for NEDO, including 10 years on the Cotton and Allied Textiles Economic Development Committee, eight of them as chairman, and in the last four as chairman of the manufacturer-retailer panels.

Those of us who have worked on the sector groups did so because their work was not being done elsewhere. But the government has thrown the baby out with the bathwater in dismantling the think-tank activities of the sector groups.

The work of the sector groups and their various working parties has been actively supported by countless busy industrialists, yet this work was not taken into account in the pronouncements of last week. The sector group's job has been to develop strategic thinking and put key pan-sector issues under the microscope, thereby influencing management, employees and the stance of government, domestically and internationally. Yes, this involves exchange of views and communicating findings to individual firms, an activity that can be described as a "talking shop", a phrase used disparagingly by eminent politicians and the Confederation of British Industry when the NEDO closure was announced. Yet are not all committees "talking shops" and has anyone, particularly government, found a better way to involve knowledgeable and experienced people in constructive debate?

I had hoped that the need to create a more productive industry-government interface would now be acknowledged as it has become clear that the issues of the 1990s and beyond are global by nature and that the nation's competitiveness is a micro-economic problem, requiring detailed understanding, sector by sector, and which cannot be solved by grand ideas alone, by tinkering with taxation, or without government in partnership with industry.

Stuart D Hollander,
chairman,
Dunkeld Group,
Elsley House,
24-30, Great Titchfield Street,
London W1P 7AD

From Mr Peter McGregor.

Sir, The idea that the NEDC was a corporatist institution is just ridiculous to anyone who worked there. Of the three parties around the Council Table neither the CBI nor the Trades Union Congress could deliver anything by way of bankable agreements on behalf of their member organisations, and the government probably could not deliver such an agreement itself (which in my time it didn't really want to do except perhaps on one occasion).

The council was not a stupid body in concept, however: a regular discussion by the social partners (to use the Continental term) of the economic situation without over-ambitious ideas about trying to agree about what ought to be done would be useful, provided that all issues were open to discussion and that the basis was a previously published independent analysis, like that of the Council of Economic Advisers in Germany. NEDO was set up to provide this analysis. However it was sabotaged by the Treasury, which eventually insisted that discussions must be based on its papers and no-one else's. For a long time the TUC would not discuss pay, and when it did agree the Treasury sabotaged that, perhaps inadvertently, although I doubt it. The CBI spent a lot of its time trying to avoid accidentally agreeing with the TUC about anything. If that is corporatism it has a peculiarly ineffective form, but that is true of many British institutions.

The sector committees also sometimes had delusions of grandeur. It often did useful work, but the basic concept was wrong. It should be possible for industry trade associations to talk directly to government, and these trade associations should also talk regularly to the relevant trades unions on the basis of exchange of information about what is going on and not only of negotiation.

The need for intelligent communication continues to exist at industry and company level, and British institutional arrangements are conspicuous by their absence. Someone needs to see that independent mechanisms develop for these purposes. Perhaps we should now have a Council of Economic Advisers to provide an independent review of the economic situation which can be discussed without the formality of the NEDC?

Peter McGregor,
(industrial director,
NEDC 1980-1984),
Dacre Cottage,
Longworth,
Oxfordshire

Rewards at Ecobrasil

From Mr David Stagg.

Sir, The commitment of Britain's gallant few to seeking exports at Ecobrasil ("British business left in the cold", June 10) was matched and encouraged by the Department of Trade and Industry with financial support and by our consulate general in Sao Paulo with its first class commercial intelligence and administrative assistance. We found David Maclean, minister of the environment, who visited us, to be excellent value.

The political uncertainty surrounding the Earth Summit in Rio deterred many exporters, not just British, from exhibiting at Ecobrasil. Participation by companies in all of the national pavilions was well down on first estimates.

The determination of "our few" has been well rewarded. While we did not see many delegates from the Earth Summit (far less FT correspondents!), those of us new to the Brasilian market, and those already established, were delighted with the results of their participation in Ecobrasil.

David Stagg,
Trade Fair Support,
71 Bank Street,
Maidstone ME14 1SN.

Unjust to Tokyo car hire firms

From Mr I D Scott.

Sir, Foul! Observer is being less than fair and less than clever ("Ah so", June 12) when he ascribes the curious English to a Tokyo car-hire company.

Old Japan hands will recognise the piece as an extract from a wonderful spoof published in 1879 and re-printed in 1953. It was called "Revised and Enlarged Edition of Exercises in the Yokohama Dialect" and purports to have been compiled at the request of the Bishop of Homoco. What makes it funny (at least to those of us who speak Japanese) is not the peculiar English (which is itself a send-up) but the wonderful way in which the Japanese is transcribed and then translated. It demonstrates the authors' good understanding of the language and their ability to send themselves up.

Observer is being unfair to *this slim publication* and unjust to Tokyo car hire firms, whose service in general is far more efficient than any I have found in London. And to suggest that Japanese corporate communications are still at that level is to demonstrate either ignorance or a vicious streak.

I D Scott,
Setagaya-ku,
Tokyo 156

Pension law: America's is imperfect, but it strikes the right balance

From Ms Alicia M Kershaw.

Sir, The late Robert Maxwell apparently did not siphon off assets of his companies' pension plans in the US. It is tempting to conclude that ERISA, America's comprehensive pension law, was the deterrent. My British counterparts should be aware that Maxwell's actions, if prudent, could have been permitted in the US. ERISA relies on the private sector for the delivery of pensions, and accommodates, at least in part, the role of pension assets in the corporate financial structure.

Britain's debate questions who should own pension assets. Here the answer is clear: Maxwell could have terminated the plans and taken back any assets in excess of benefits earned to date. During the late 1980s, pension plan terminations became common here, despite arguments that excess funds belonged to the pensioners. Now terminations have slowed, due to poorer investment performance and curbs on plan funding.

Reformers in the UK are considering removing plan assets from the employer's control and prohibiting self investment. Under ERISA, Maxwell could have appointed himself trustee, retained investment control and directed investment at plan assets in Maxwell companies. If those investments were prudent (perhaps a large "if" in the case of Maxwell) no law would have been breached.

(Although ERISA does not explicitly require it, our regulators insist that any self-investment be validated by an independent party.)

Pension losses in the US are limited by an insurance system managed by a quasi federal agency, the PBGC. Without a federal guarantee of the programme, this should provide little comfort to pensioners. The system has been marked by deficits and by regular increases in fund premiums (paid by plans). Until recently, premiums were not based on plan financial health. Limited experience rated premiums are now imposed, but the relationship of premiums to risk remains imperfect.

Enhanced reporting and disclosure is frequently advocated. I am sceptical. ERISA does require extensive reporting and disclosure. But under ERISA, no one would have learned of Maxwell's defalcations of pension money until it was too late. An investment may not be reported for as many as 19½ months after it is made. The government only recently began enforcing penalties for failure to file (someone discovered revenue could be raised from it).

ERISA will not prevent a determined person from raiding pension assets; no private system will.

There is a danger of over-reacting to the Maxwell affair. ERISA is far from perfect but it has achieved a balance between protecting pensioners and preserving the private system.

Alicia M Kershaw,
Dewey Ballantine,
1775 Pennsylvania Avenue NW,
Washington DC 200006

Taking issue on Watergate

From Mr Barry Shelby.

Sir, I take issue with Jurek Martin ("Is the US system still working", June 17) on one point. He says that politicisation of the judiciary has meant the "rejection of fine legal minds (Robert Bork)" from seats on the Supreme Court. But let us not forget Bork's role in Watergate. It is one Martin could have easily mentioned, particularly as he acknowledges the actions during Watergate of some "principled civil servants", such as Elliot Richardson, Nixon's attorney general, who chose to resign rather than fire (at Nixon's behest) the special prosecutor who was about to expose the president's role in the conspiracy. The man who finally did axe Archibald Cox was, of course, Bork.

Fine legal mind notwithstanding, for that reason I am glad Mr Bork never ascended to the Supreme Court.

Barry Shelby,
280 E 10th Street #17,
New York, NY 10009

MEPs and Maastricht

From Mr Derek Prag MEP.

Sir, I can assure you that the heading of your report "Euro-MPs press over Maastricht" (June 18) gave an entirely false impression of our discussions with the prime minister on this subject. Since our view of what should be done following the result of the Danish referendum coincided with that expressed by Mr Major and the foreign secretary, there was nothing to exert pressure about.

Clearly a negotiation would be necessary between the Twelve to reach agreement on the terms of any "solemn declaration" to be attached to the treaty, but it would not involve any actual re-negotiation of the Maastricht Treaty itself. The government has already made a proposal to this effect. Several other possibilities were briefly discussed.

Moreover, we were all agreed that it was sensible for the eleven Member States other than Denmark to proceed with ratification of the treaty as soon as practically possible.

If the meeting highlighted anything, it was certainly not "the spread of views across the party", but the unanimous support of the Conservative Euro-MPs for the government's policy on the Maastricht Treaty, and in particular for finding ways of helping Denmark to ratify it.

Derek Prag,
MEP for Hertfordshire,
Pine Hill,
47 New Road,
Digswell,
Welwyn,
Hertfordshire AL6 0AQ

Big penalty for small firms

From Mr Rupert Emerson.

Sir, Do employers know about the penalties in 1993 for completing their end of year returns late?

We are a small business but had 376 different short-term employees last year. Next year, we will be fined up to £9,600 for being just three weeks late.

Rupert Emerson,
Vincent Knight Sanchez Consultancy,
108 Kingston Road,
Wimbledon

FINANCIAL TIMES

Monday June 22 1992

The London insurance market's deficit for 1989 is confirmed at £2bn

Lloyd's Names face heavy losses

By Richard Lapper in London

ABOUT 4,500 Lloyd's Names face average losses of more than £100,000 each for 1989, it emerged yesterday following the first official confirmation that the insurance market lost £2bn ($3.7bn) in that year.

Unaudited figures confirm that losses are heavily concentrated among a minority of Names – the individuals whose assets provide Lloyd's with its capital base. Audited final figures are expected to be reported at Lloyd's annual general meeting on Wednesday.

It also emerged yesterday that Lloyd's authorities could be seeking as much as £50m from brokers and agents trading on the market to boost the funds available to provide "hardship" relief for hard-hit Names who would otherwise face ruin.

The £2bn loss for the market as a whole compares with a deficit of £510m in 1988, the first time Lloyd's had been in the red for 20 years. It reflects the impact of disasters such as hurricane Hugo, which devastated the Caribbean in September 1989.

The latest loss comprises a £1.4bn loss on the 1989 year, the transfer of £400m to reserves to cover claims emerging from business underwritten in previous years and a separate amount of £200m for Names' personal expenses.

More than 4,300 of the 31,329 Names made losses equal to 30 per cent or more of their premium income limits (the amount of premium Names are allowed to receive according to Lloyd's rules). With this limit amounting to an average of £350,000 in 1989, the indications are that this minority – about 14 per cent of the market's membership – has lost more than £100,000 each.

The losses of syndicates managed by two agencies – Gooda Walker and Feltrim – amounted to about £602m, while five syndicates – numbers 255, 290, 298, 540 and 847 – registered losses of £560m.

The impact of the losses is certain to increase the number of Names seeking hardship relief, under which debts are restructured and Names are allowed to retain a house and a modest income. More than 1,000 applications have already been received by the hardship committee since its formation two years ago.

Although Lloyd's decided last week to reject the introduction of a bail-out plan – in which the market as a whole would have assumed the losses of the hardest hit – Mr Alan Lord, chief executive, confirmed on Thursday that discussions were under way with brokers and agencies to increase the amount available to help ameliorate the terms of these hardship arrangements.

Lloyd's officials met the Lloyd's Insurance Brokers Committee on Friday, when the idea of Lloyd's brokers contributing £25m over a three-year period to such a fund was mooted. Agencies – which manage the affairs of Names and syndicates – could be asked for a similar amount.

The more than 200 brokers would contribute pro rata according to the amount of business they do with Lloyd's. Larger brokers, such as Sedgwick, could be asked to pay about £2m. One broker said the idea had been favourably received but stressed that the money was for helping hard-hit Names rather than for paying claims.

He warned, however, that brokers which are part of US corporations might find it harder to persuade shareholders than those domiciled in the UK.

Picture: Terry Kirk

Bahrain's prime minister Sheikh Khalifa: time to open a new chapter in relations with Iraq

Bahrain breaks ranks and urges closer ties with Iraq

By Roger Matthews and Mark Nicholson in Bahrain

BAHRAIN has become the first frontline Gulf country to urge better relations with Iraq since the forces of President Saddam Hussein were driven out of Kuwait last year.

Sheikh Khalifa bin Sulman al Khalifa, prime minister, said in an interview at the weekend that it was time to open a new chapter in relations among the Gulf states and move on from "whatever has happened between us".

At the height of the Gulf war Bahrain was attacked by Scud missiles and was host to more than 17,500 US servicemen and over 200 combat aircraft, including Tornados from the British Royal Air Force. It is the operational headquarters for the substantial US naval presence in the Gulf.

The prime minister's comments followed greetings he sent to Mr Saddam at the start of a recent Moslem holiday and reported contacts between Iraqi and Bahraini officials in Rio de Janeiro during the Earth Summit.

Sheikh Khalifa said he could not speak for his neighbours on the sensitive issue of developing ties with Iraq – his initiative is certain to be greeted with concern, especially in Saudi Arabia and Kuwait – but he pointed out that Oman, one of six members of the Gulf Co-operation Council (GCC), had maintained links with Baghdad throughout the crisis.

Sheikh Khalifa likened a rapprochement with Iraq to US moves to improve links with Vietnam. "They lost 50,000 men in Vietnam but they are now trying to normalise relations. It is only natural," he said.

"I would like to see normalisation of relations in the Gulf on a wider scale with all countries – this is the only way we can maintain our international relations and security."

The prime minister added: "Saddam Hussein is only a man. He will die one day. However, Iraq has to be preserved as a country. There is an idea in the west that Iraq could be divided into northern, central and southern parts. We want to prevent its break-up."

He emphasised the humanitarian nature of his desire for closer links with Baghdad. "It was not just a cable I sent to Saddam Hussein. We look at Iraq as one Iraq. We look at the Iraqi people and we look at suffering people all over the world. We look at Yugoslavia, and we have sympathy with the people of Iraq."

Sheikh Khalifa said governments were now racing to re-establish links with Iran. He looked forward to the day when the GCC (Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Oman and Qatar) might be expanded to include Iran and Iraq.

But before this could happen the GCC would have to patch up their differences, he said, a reference to several border and economic issues dividing members.

● Iraqi and UN officials began a third session of talks yesterday to seek a way to end the UN's oil embargo against Baghdad, Reuter reports from Vienna.

Under discussion is a plan agreed last September by the Security Council, and extended in March, which would allow Iraq to sell $1.6bn of oil over a six-month period.

The Security Council imposed mandatory sanctions against Iraq in August 1990, four days after the Iraqi army invaded Kuwait.

Guidelines on banking regulation to be tightened

By Peter Marsh, Economics Staff, in London

NEW guidelines on minimum standards for bank regulation, designed to reduce the risk of big banking frauds, are to be issued over the next few weeks by the main industrial countries.

The rules – to be issued by the Basle-based Committee on Banking Supervision – are intended to give regulators additional jurisdiction over activities of banks outside their national territories. Swapping of information among regulators on banks operating in more than one country will also be encouraged by the guidelines.

Regulators and central bankers from the 11 nations in the Group of 10 industrial countries are represented on the committee.

It is headed by Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, and has been working on ways to tighten banking regulation worldwide, particularly in light of the Bank of Credit and Commerce International scandal.

Many of the defects in supervising BCCI were due to the the bank's complex management structure and its spread of operations around the world. This led to ambiguities in supervising responsibilities among national regulators.

The committee will issue its directive in the form of an update of the Basle Concordat on banking regulation, which was last strengthened in 1983. The new rules will in some cases put in concrete form standards which already apply in some countries.

They are also intended to serve as guidelines for regulatory bodies outside the G10, especially in the developing world.

The main points are:

● Regulatory agencies in specific countries which cover the head office of an international bank will have the right to inspect records of branches of the bank in other countries. That should make it easier for the so-called "home" regulator to gain the information it needs to find out about, for instance, suspected fraud.

● If the home regulator believes the bank in question is being run improperly – even though the improper activities may be showing up mainly in foreign operations – then it should have the power to take appropriate action. This could mean closing the bank.

● An individual bank should ensure its operations are organised in such a way that it can be properly supervised by a regulator in one country, at the site of a designated head office which is where its top management is based.

This is designed to ensure that banks do not deliberately split management functions among several centres with a view to make supervision more difficult.

● Opening of international bank branches should require the go-ahead of supervisors in both the "home" and the "host" country.

THE LEX COLUMN

On the Street corner

Even after last week's gyrations, the US equity market appears deceptively sanguine. The Dow is sitting neatly between its recent peak and its level at the start of the year. But overall it has risen by a mere 4 per cent. Broader indices, notably the S&P 500, have been flatter. Last week's cancellation of the GPA flotation suggests that investors are becoming more sensitive to risk after a flood of new issues. The forthcoming election is adding to the uncertain outlook.

Since late last year the equity market has been underpinned by retail investors switching out of money market funds in response to exceptionally low short-term interest rates. That process cannot go on for ever, though the Federal Reserve would be reluctant to raise rates ahead of the election, and the economy has also been slow to respond to monetary ease.

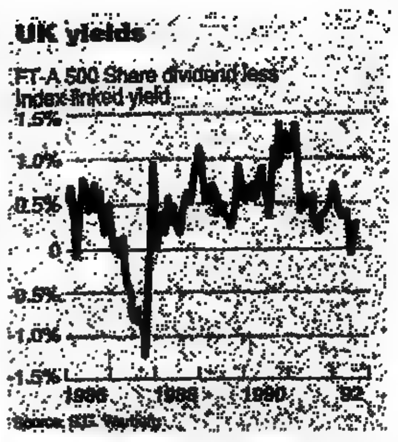
If anything, recent indicators have tended to weaken the view that recovery is gathering speed. The Fed could conceivably cut short-term rates again, which would help Mr Bush's re-election chances. But any cut will be small. Once a sustained recovery is evident, short-term rates will inevitably rise again, tempting retail investors back into cash.

Those who remain bullish on equities on the grounds that corporate earnings are expected to rise strongly cannot have it both ways. On the one hand the argument assumes slow growth and low inflation will continue to justify easy money. On the other, the economy will have to grow rather more robustly if the market multiple of 14 for next year is correct. In that case, presumably short-term interest rates will be rising again. That does not give much incentive for further buying of US equities.

Index-linked gilts

A curious feature of UK government funding since the election has been the unusually high profile of index-linked gilts. At some £1.2bn, new index-linked stock accounts for more than 10 per cent of gilts sold so far in 1992-93, bringing the total size of the market to almost £14bn. The Bank of England has clearly uncovered demand for this paper. Less obvious is why such demand should exist. The prospect of declining inflation should make conventional gilts more attractive, despite the worries on economic convergence unleashed by Denmark's Maastricht referendum.

Admittedly, index-linked gilts have



a much greater appeal to high-rate UK taxpayers than conventional gilts. But this advantage has always existed. A more important factor appears to be the unusually narrow yield differential between index-linked and equities. The chart shows that, even after the fall in equity prices last week, the differential is still below its long-term trend. Indeed, since the election it has plumbed depths rarely seen since just before the 1987 crash.

There is no need to dwell on that ominous parallel, but the behaviour of the differential further undermines the fundamental basis for the post-election rally in equities.

Since index-linked stock offers both inflation adjustment and a guaranteed real return, it is the next best thing to a risk-free equity investment. The risk involved in equities – of the chosen company going bankrupt, for example, or simply the ravages of the cycle – means they should normally command a yield premium over index-linked. Arguably that premium should now be more than the 0.5 to 0.6 of a percentage point to which it has tended in recent years. The poor economic outlook has clouded the prospects for real earnings growth, while the abnormally low average level of dividend cover makes equity yields less secure than they at first sight appear.

One might thus have expected heavy buying to hit the index-linked market as equity investors became more risk averse. That this did not happen owes something to traditional worries about trading liquidity, as well as the dampening effect of the Bank's habit of issuing new paper to meet demand. It may have plenty of opportunity to do so if doubts over the future of European currency union create resistance in the conventional gilts market to the government's large funding requirement. The extra volume could be to the market's benefit. As its size increases, liquidity will improve. Eventually the index-linked market could offer a viable opportunity for investors who want equity style growth with minimal risk.

Coal sale

In privatising British Coal, the government must reach a delicate balance. It naturally wants to maximise proceeds for taxpayers. But if it tries to enhance the worth of BC by pricing its output too aggressively, it will impair the value of its remaining 40 per cent investment in the two electricity generating companies, which it intends to sell in the medium term.

Hence the importance of the negotiations over the generators' future coal contracts. There may be up to 25m tonnes sustainable UK annual coal production which can easily compete with imported coal. A BC sold on that basis might not be hugely profitable, but its earnings stream would be of high quality and worth a premium in the market. Had the generators to accept higher-priced coal contracts, more UK coal would be economic, but BC's earnings quality would fall.

Equally, after a point, higher contract prices would reduce the generators' profits. New competitors would not face the same constraint and would probably use gas anyway. PowerGen and National Power might try to pass on costs to the distribution companies, but it is hard to see the regulator accepting that.

The government's first need is to strike the level above world coal prices that the generators can bear without adverse effect on their earnings. That is probably no more than 10 per cent, which would allow British Coal annual output of nearer 30m tonnes. The end to uncertainty once a deal is signed should increase the value of the generators. The remaining task then becomes that of extracting value for the taxpayer.

The logical route would be to seize the opportunity, albeit belatedly, to break the generators up into smaller, competing units. There would be no significant loss of value. The new companies would have relatively stable earnings thanks to their coal contracts. The government could sell its stakes once the market had stabilised. The process would take longer than a straight secondary sale, but taxpayers would benefit from a more competitive industry.

Wellcome scales back share offer

Continued from Page 1

Advisers to the sale would also feel more comfortable with a smaller issue because they are determined to maximise the price received by the charity.

The shares go on sale by tender offer on July 6. There will be no special discounts or deals for anyone, other than certain priority arrangements for existing shareholders and early applicants. Advisers to the sale have targeted the US and Mr John Robb, Wellcome chief executive, is planning to talk to a number of institutions there this week.

Mandela suspends talks

Continued from Page 1

at the end of a week which saw relations between the government and ANC sink to their lowest level since the unbanning of the ANC in February 1990.

Earlier Mr Mandela had visited Boipatong where the rapturous reception afforded him contrasted sharply with the hostility towards Mr de Klerk, whose visit lasted less than 15 minutes.

The Vaal Triangle townships visited yesterday by Mr Mandela are among the most volatile and dangerous in the country. The road from Boipatong to Evaton, which passes through Sebokeng, resembles a war zone. Burnt tyres, rocks and tree-stumps are strewn across all the main streets to discourage police patrols.

Mr Mandela reminded his audience that the infamous Sharpeville massacre in 1960 had occurred in the same vicinity as Boipatong. "I come back today to this area where Sharpeville has been repeated with a ferocity that may completely put an end to negotiations with the regime."

He said he would request the secretary-general of the United Nations to call a special session of the Security Council to discuss the "massacres committed by Mr de Klerk and his regime".

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	22	72	Boulogne	R	14	57	Frankfurt	F	19	66	Majorca	R	16	61	Oporto	S	22	72	Tenerife	T	21	70
Algiers	C	22	72	Brussels	C	14	57	Geneva	S	17	63	Malaga	Dr	19	66	Oslo	F	18	64	Tokyo	C	21	70
Amsterdam	S	20	68	Budapest	F	28	82	Gibraltar	R	17	63	Malta	S	30	86	Paris	F	17	63	Toronto †	Dr	7	45
Athens	S	28	82	Buenos Aires	R	18	64	Glasgow	S	18	64	Manila	C	33	91	Prague	T	27	81	Tunis	F	32	90
Bahrain	S	33	91	Cairo	F	33	91	Helsinki	R	[illegible]	[illegible]	Melbourne	F	11	52	Reykjavik	F	8	46	Valencia	Dr	17	63
Bangkok	F	34	93	Cape Town	F	15	59	Hong Kong	C	29	84	Mexico City	F	29	84	Rhodes	S	25	77	Venice	S	25	77
Barcelona	F	18	64	Caracas		–	–	Innsbruck	F	22	72	Miami †	S	26	79	Rio de Janeiro	F	25	77	Vienna	S	26	79
Beijing	F	26	79	Casablanca †	R	21	70	Inverness	F	18	64	Milan	F	22	72	Rome	S	26	79	Warsaw	S	27	81
Beirut		–	–	Chicago †	S	7	45	Islamabad	C	33	91	Montreal †	C	15	59	Salzburg	F	20	68	Washington †	C	16	61
Belfast	C	14	57	Cologne	R	14	57	Istanbul	T	22	72	Moscow	S	25	77	S'Francisco †	C	16	61	Zurich	F	19	66
Belgrade	S	27	81	Copenhagen	C	17	63	Jakarta	C	32	90	Munich	C	20	68	Seoul	C	23	73				
Berlin	S	26	79	Corfu	S	28	82	Johannesburg	S	19	66	Nairobi	S	24	75	Singapore	F	32	90				
Biarritz	F	19	66	Dallas †	F	23	73	Lisbon	S	24	75	Naples	F	26	79	Stockholm	F	13	55				
Bombay	Dr	27	81	Dublin	F	18	64	London	S	18	64	Nassau	C	28	82	Strasbourg	F	21	70				
Bordeaux	F	15	59	Dubrovnik		–	–	Los Angeles †	C	17	63	New Delhi	F	36	97	Sydney	C	15	59				
				Edinburgh	S	19	66	Luxembourg	C	17	63	New York †	C	16	61	Taipei	F	31	88				
				Faro	F	21	70	Madeira	C	20	68	Nice	F	17	63	Tangier	C	19	66				
				Florence	S	24	75	Madrid	F	30	86	Nicosia	S	26	79	Tel Aviv	S	29	84				

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES COMPANIES & MARKETS

Monday June 22 1992

INSIDE

Brother faces test of strength

Brother Industries, having paid for its high-profile seat at the top table of this year's Olympic corporate sponsors, should be able to bask in the publicity. Instead, the year of Barcelona has become an important test of strength for the maker of information equipment and household electric appliances: its profits are under pressure, it has just announced a restructuring plan and the weak Japanese share market has increased the cost of capital, and denied the traditional easy profits on marketable securities. Page 15

Irish vote lifts bond gloom

Europe's government bond markets shed their gloom and rallied as Ireland voted in favour of the Maastricht Treaty on Friday, thereby reviving hopes of European economic and monetary union. Page 18

Stags' bonanza curbed

The flood of companies coming to the UK stock market – at a number unrivalled, barring privatisations, since before the 1987 stockmarket crash – would once have had the stags preparing for a bonanza. But this time round private investors hoping for a quick profit by applying for shares and selling them soon afterwards may find the issues have been structured to prevent the once-common mayhem when dealings in newly floated companies' shares began. Page 14

US economic data disappoint

Wall Street is having to revise its forecasts in the wake of the most recent economic data. After the 2.4 per cent growth of the first quarter, economists are now predicting the economy will have probably grown not much more than 1.5 per cent during the second quarter. The reason for this depressing downward revision is last week's raft of economic statistics which suggested that the economy was not growing as fast as originally hoped. Page 16

Reichmanns 'shifted assets from O&Y'

By Bernard Simon in Toronto

THE REICHMANN family of Canada has moved assets worth several hundred million dollars from Olympia & York Developments, the holding company under court protection, into other private family companies during the past 18 months.

The family companies which bought the assets from O&Y lie outside the court protection which the Reichmanns sought last month for O&Y, its 28 subsidiaries in Canada, and the Canary Wharf project in London's Docklands.

There is no question about the legality of the transfers. The assets are understood to have been independently valued.

However, the transactions have contributed to growing friction between O&Y and holders of its C$13.5bn (US$11.2bn) debt.

A lawyer representing one of the lenders said the family "have managed to take away some valuable pieces of property from the process."

The assets transferred from O&Y since January 1991 include:

● Olympia Tile, which is one of North America's biggest distributors of floor-coverings, and was one of the Reichmanns' first businesses after they arrived in Canada from Tangier in the late 1950s;

● The family's 65 per cent stake in Camdev, the property developer previously controlled by Canadian entrepreneur Robert Campeau;

● Several smaller office buildings.

Some key creditors are also complaining that O&Y, renowned for secrecy until its liquidity crisis broke earlier this year, is still being less than fully co-operative in making available financial information.

The concerns centre on unencumbered assets, ranging from parcels of undeveloped land to the Reichmanns' Gulfstream jet, which could be sold to help service O&Y's debts.

An Ontario court order issued late last week requires O&Y to provide by this afternoon a more comprehensive list of its assets than has been available so far.

New procedures have also been put in place to speed up the flow of information.

The lenders say they were taken aback last week to learn that O&Y was selling 50 per cent of a 13-storey office development in the centre of Budapest.

This project was not listed in O&Y's application for bankruptcy protection.

O&Y officials acknowledge privately that the company has delayed providing some information.

However, they also blame lenders for making unreasonable requests, including for data which, if publicly known, could complicate the disposal of assets.

They say the Budapest property, which is still under construction, was not significant enough to be listed separately.

In other developments, a company spokesman declined to confirm or deny reports that O&Y's US subsidiary had raised US$83m from the sale of a 12 per cent stake in Hyperion Capital Management, a New York portfolio management firm.

Much of O&Y's energy at present is directed towards keeping the US operation, comprising more than 20 buildings, out of the bankruptcy courts.

O&Y has disclosed that the three investment banks acting as its financial advisers will receive C$5.8m in fees over the five months to October.

More than half will be paid to JP Morgan of New York, with the rest split between James D Wolfensohn – one of whose partners, Mr Steve Miller, is leading O&Y's debt restructuring effort – and Burns Fry of Toronto.

Paul Reichmann, one of three brothers who founded O&Y

Winds of change are threatening to topple London's discount houses 300 years after they were founded, writes **James Blitz**

A top-hat tradition in the balance

Some people regard them as the most noble institutions in the City of London. Others think that they should die.

The City's discount houses are in the thick of a revolution that may extinguish their activities. For as long as anyone can remember, these money market dealers have played a crucial role in the Bank of England's sterling operations, acting as the valves through which liquidity passes from the Bank to the commercial banks.

But now, nearly three centuries after they were founded, voices in the City are saying these dealers have outlived their usefulness. "They are ancient history, a complete anachronism," says Mr Neil MacKinnon, chief economist of Yamaichi International in London and co-author of a book on the sterling money market.

Critics charge that London is looking increasingly out of step as the only European financial centre to use such intermediaries as discount houses in its money market operations.

"Given the expansion of the money markets globally, they now have a place only in the history books," Mr MacKinnon says.

The nine members of the London Discount Market Association, with names like King and Shaxson or Gerrard and National, still retain the image of old-fashioned houses which, elsewhere in the City, became an anomaly after its financial markets were deregulated by the Big Bang of 1986.

A few still cling to their traditions, wearing top hats when they turn up at Threadneedle Street to borrow money from the Bank in the early afternoon, or holding a ritual meeting with the Bank's governor once a week.

Their relationship with the central bank is jealously guarded. If the commercial banks are short of cash, one way they can balance their books is by borrowing money from a discount house. The commercial banks obtain cash by selling an eligible bill, essentially a post-dated cheque, to a discount house which, in turn, sells it to the Bank. The rates at which the Bank lends to the discount houses influence the level of lending rates throughout the banking system.

This intermediary role is now under attack from several fronts:

● British clearing banks – in the past year, the balance of power in the money market has shifted towards the clearers, as the Bank of England has allowed the protection given to the discount market to be eroded.

In the 1970s, the Bank ruled that the commercial banks had to place a proportion of assets in the form of secured callable deposits with the discount market. This cash, which averaged around 5 per cent of a bank's eligible liabilities, was known as "club money" and gave the discount houses an assured source of funding at lower rates than those in the market.

In the past year, the "club money" practice has faded. Commercial banks no longer have to place a minimum level of funds with the discount houses. Instead, they have begun keeping larger stocks of bills on their books.

This gives the bigger clearing banks greater leverage over the market. A common practice among clearers is to push short-term rates in the money markets downwards when it suits their books, by passing many bills on to the discount houses at once. They can deploy bills in the quantities they need to, rather than relying on the liquidity services of the discount houses.

● Another challenge comes from the plans for monetary convergence envisaged in the Maastricht Treaty on European Monetary Union (Emu).

The Bank of England's operations are unlike those in the other 11 EC countries. In Germany, for example, the Bundesbank deals directly with the nation's banks rather than through intermediaries. It keeps a tight rein over day-to-day money market developments by obliging banks to place minimum reserves in non-interest-bearing accounts at the central bank and, by way of compensation, operates a limited discount window for the banks at favourable interest rates.

The Bundesbank operates only once a week in the open market, rather than every day as the Bank of England does. "It is a lot simpler on the continent," says one money market trader in London. "If there is monetary union, Britain will have to resort to the European way."

Last month, Mr Eddie George, deputy governor of the Bank of England, also hinted that the Bank was less committed to the discount market principle. He said some of the subtlety of national money market techniques, "tailored to national market circumstances", could be lost in the move to Emu.

● The discount houses' profits are being eroded by the British government's cautious policy on base rates. When base rates move sharply downward, the discount houses make larger profits because the capital value rises of the bills they hold.

But in the past year, the Bank has pursued a policy of infrequent rate cuts. Sterling's membership of the Exchange Rate Mechanism has tended to reduce volatilities in the cash market, and in the short sterling futures market where the discount houses are also big players.

The discount houses have tried diversifying. Gerrard and National, for example, has gone into financial futures broking and gilt-edged market-making. But another house, Union Discount, was stung when it attempted to go into property leasing. Its chief executive stepped down earlier this year after the company reported a 1991 loss of £21.3m.

The discount house dealers are not taking the erosion of their position lightly. They argue that it is harming London's prestige as a financial centre. "We have the most sophisticated short-term paper market in Europe and the value of our techniques should not be underestimated," said one discount house trader last week.

Another broker says the growing domination of the British clearers makes it harder for foreign banks to invest in the sterling money market. He says a handful of clearing banks can push short-term interest rates to levels far from base rates, by deploying large numbers of bills when it suits their books.

In recent weeks, for example, the overnight rate for sterling in the cash market has oscillated between 5 per cent and 20 per cent, even though base rates are at 10 per cent. "Imagine how the head of treasury in a German bank feels about dealing in the sterling money market under these conditions," he says.

It is unlikely that the Bank of England will desert the discount houses in the immediate future, having had such a close relationship with them over the centuries.

But the market is unsure how the Bank will react in the long term, both to the pressures from Britain's clearing banks and the need to conform to continental-style monetary operations in the run-up to Emu.

Money-market intermediaries are part of the City's history

Adjusting an undeserved reputation

Economics Notebook

By Frances Williams in Geneva

Economic adjustment measures in developing countries, especially under IMF-inspired programmes, are often blamed for increasing poverty, widening inequality and holding back development.

A study by the Development Centre of the Paris-based Organisation for Economic Co-operation and Development (OECD) suggests this reputation may be undeserved. Claims that adjustment is a cruel punishment visited on the poor by unfeeling international organisations and greedy bankers miss the point, the authors say.*

Basing their arguments on case studies in seven countries, which included using economic models to test alternative strategies, the authors conclude that adjustment does not necessarily dampen growth or increase poverty.

Obviously much depends on the severity of the economic crisis. But different measures have differing social impacts. This is true both for stabilisation policies that cut domestic demand to curb inflation and rein in trade and budget deficits, and for longer-term structural adjustments to improve supply by making the economy more responsive to market signals.

Political opposition to adjustment that delays government action worsens the social costs, the study argues. The costs of adjusting are lower than the costs of not adjusting, and adjusting before the crisis is better than waiting until the crunch comes and the country can no longer meet its debts or finance its outgoings.

The study is interesting partly because it claims to break analytical ground in disentangling and simulating the effects of different adjustment policies, and partly because it is the work of two academics with no particular axe to grind. Thus, while the authors see adjustment as essential, they do not necessarily endorse IMF prescriptions.

Of the seven countries looked at in detail, Chile, the Ivory Coast, Ecuador and Morocco instituted programmes under IMF supervision. Malaysia and Indonesia did so on their own initiative before running into trouble (and so had more choice of policy measures). Ghana is cited as a prime example of an economy ruined by refusal to adjust when crisis hit in the 1970s.

In Malaysia and Indonesia, where the problems and so the stabilisation measures were less severe, living standards rose during adjustment. Poverty also declined in Ghana during adjustment, which got underway in the 1980s.

In the other countries, adjustment was accompanied by stable or higher farm incomes and employment but urban poverty increased. In Chile, where the urban poor predominate, and in Ecuador where peasants rely heavily on non-farm sources of income, poverty rose overall.

The study attributes these differences to the timing of measures and to the policy mix chosen. Some governments, including Ghana's, ran programmes designed to protect the poor. Ecuador made no provision and Chile helped only the poorest.

Adjusting before the crisis meant less drastic cuts in demand, including cuts in public spending. Early adjustment also ensured a continuing flow of foreign capital, bolstering private investment necessary for future growth and cushioning public spending on social services and essential infrastructure.

The economic models used by the study also indicate for the first time how countries might have fared without adjustment. The answer is badly. The authors say critics tend to focus on the costs of adjustment (often confusing them with the costs of the crisis) and ignore the costs of non-adjustment.

In Ghana's case, non-adjustment meant drying up of funds from abroad and a reduction in imports to the low levels of export earnings. This produced falling incomes, output, trade and a "disastrous increase" in poverty. Simulations for other economies confirm that this path leads to socially costly "self-centred underdevelopment".

Looking at stabilisation policies, the authors suggest that devaluation seems to be a more efficient and equitable way of reducing a trade deficit than cutting public spending or running tight money policies. It slows economic activity less and, because it usually favours the poorer rural sector, it reduces inequality and poverty.

The authors conclude that to minimise social costs the best stabilisation programmes combine devaluation, a restrictive monetary policy to keep the lid on inflation (which hurts the poor) and a moderate reduction in public service wages (if they are higher than elsewhere). The worst involve raising the prices of basic goods and laying off public sector workers – recipes for social unrest, but often included in IMF-approved programmes.

Cuts in capital spending, if necessary, should not apply to rural investment which helps reduce inequality and poverty, the study says. Similarly, cuts in social spending and subsidies should avoid measures that impose disproportionate social costs to the sums saved. For instance, making the poor pay for medicines effectively deprives them of medical care, even when treatment is free.

The study in general praises structural adjustments which it says tend to have positive social effects. For instance, price liberalisation usually favours the rural over the urban sector. Moreover, increased economic flexibility reduces the costs of stabilisation.

However, the authors, again disputing conventional IMF and World Bank wisdom, warn countries not to take drastic measures like privatisation to reorganise state enterprises during an austerity programme. If attempted, there should be compensation programmes for the unemployed, as in Ghana, and effective longer-term measures to retrain redundant workers and help them find alternative employment.

**Adjustment and equity in developing countries: a new approach, by François Bourguignon and Christian Morrisson (OECD Publications, 2 rue André-Pascal, 75775 Paris cedex 16; 111pp, FFr130).*

Kalon seeks to reassure Manders over jobs

By Roland Rudd in London

KALON Group, the West Yorkshire-based paint manufacturer, yesterday said its hostile £104.4m ($193m) all-paper bid for Manders (Holdings), the Wolverhampton paints group, would result in a net loss of 300 jobs and not the 500 originally feared.

Kalon's formal offer document, which Manders' shareholders receive today, says recruitment after a merger would partly offset closure of the Windeck factory at Bingley and further rationalisation.

The workforce would be cut by about 12 per cent overall instead of 20 per cent. It would still result in cost savings of more than £4m.

Manders yesterday accused Kalon of backing down under pressure.

The listing particulars also show that over the past three years Mr Mike Hennessy, Kalon managing director, received a £745,300 bonus linked to earnings per share growth. His average annual salary including other bonuses over the same period was £128,000.

In 1988 Kalon's pre-tax profits were £3.72m; in 1991 they were £9.2m, a growth rate of 36 per cent a year.

Mr John Farmer, finance director of Manders, yesterday dismissed Kalon's profits growth and said its eight-for-three offer was "fragile".

He said: "Kalon is only offering its shares which have been inflated by its windfall figures of last year when its prices went up and raw material costs went down."

New structures that keep the stags at bay

Maggie Urry on the changes taking place in the way companies float their shares

THE FLOOD of companies coming to the stock market – at a number unrivalled, barring privatisations, since before the 1987 stock market crash – would in days gone by have had the stags preparing for a bonanza.

But this time round private investors hoping to make a quick profit by applying for shares and selling them soon afterwards may find that the issues have been structured to prevent the once-familiar scenes of mayhem when dealings in newly-floated companies' shares began.

Partly through the privatisation programme, corporate financiers have developed ways to avoid the worst excesses of the old style issues, *hoping to secure a higher price* for companies going public and reduce the risk of spectacular flops. The new structures also cut commissions involved in issues.

In the old days a flotation would usually mean a public *offer for sale*, perhaps with the price set by tender, but often with a fixed price pitched to ensure the issue's success. The offer would be fully sub-underwritten, *costing 2 per cent of* the value of the shares being sold in commissions.

Investors would fill in their application forms – making multiple applications in the days before those were outlawed – *then wait to see if the* issue was oversubscribed.

If an oversubscription was large it would result in a ballot for shares or the scaling down of *allotments* to perhaps 100 shares per investor. On the first day of dealings the shares would open at a large premium to the issue price, and stags would sell their small parcels of shares to institutions attempting to gather together a holding large enough to justify its place in a fund. Often large percentages of the newly-quoted company's share capital would change hands in the first few days of its stock market career.

The Laura Ashley flotation in 1985 was by no means the worst example. Its offer for sale at 135p was 34 times oversubscribed, a ballot cut allotments to 300 shares for smaller applicants, and first day dealings saw the price at a 59p premium. But the shares' performance since has been dismal.

While this was great fun for the stags, the company could feel it had sold its shares too cheaply, and paid *a lot to do* so. Since the last rash of new issues new ways of handling flotations have been introduced.

Nowadays, according to one merchant banker, "book-build*ing is the buzz word in the new* issue market". Book-building – gathering indications of the number of shares institutions will buy in a placing at what price – is the basis of large international offers, such as those of Wellcome shares. But they have a place in smaller UK only issues. Corporate financiers say that book-building has always happened on an informal basis. That helps to assess at what price the shares will be fully taken up, so that pricing is a more exact art.

Many of the current spate of issues have an institutional plac*ing separate from the public* offer for sale. This means the institutions can get the stock they want without having to scrabble in the aftermarket for it. It also reduces the risk of the issue flopping as a proportion of the offer is firmly placed before the public sale.

"A public offer for sale is a very blunt instrument," one new issue expert says. "There must be enough give in the *price for the two week carry* between *pricing* and applications closing".

Says one merchant banker: "If you take the view that a proportion of the stock – say 65 or 75 per cent – is going to end up in the hands of the institutions, then the most effective and cheapest way of getting it there is through a placing. We are cutting out the *stags, the middle men.*"

Another says: "If you put the shares where the buyers are it makes the pricing more accurate." That means a higher *price as a narrower margin for* error is needed. "It is very, very hard to assess public demand", he says, explaining why in the past some issues *have appeared underpriced.*

Kenwood Appliances, which is being valued at £104.5m in its float, is typical in placing half the 23.2m shares being *sold and offering the rest to* the public. The Telegraph and Anglian Windows issues take the same half and half route.

The commissions on the public offer are the usual 2 per cent, with 1¼ per cent going to the sub-underwriters, and ¾ per cent to the brokers who line up the sub-underwriters. But the placing involves commissions of only ¾ per cent, of which ¼ per cent goes to the *brokers and ½ per cent to* Schroders, the sponsoring bank. The bank takes on the full risk of holding the shares being placed in the few hours between pricing and the receipt of firm orders from the institutional buyers.

At Kenwood's *265p issue* price, the commissions on the public offer will total £662,000 and on the placing £248,000. By placing half the shares over *£400,000 in commissions is* saved.

The Stock Exchange insists that a proportion of the shares – usually 25 per cent – in a flotation are publicly *offered,* unless the issue is raising under £15m. *Smaller issues can* thus avoid the costs involved in advertising a public offer, as well as the higher commissions. Country Casuals, the retail group, is only doing a placing in its flotation.

*However, another develop*ment in new issue tactics – the so-called financial intermediaries placing – helps smaller companies raise up to £30m *without a public offer, and is* also being used by larger ones to extend the placing element. One merchant banker planning a flotation for the autumn is *aiming to keep the issue just* under £30m to avoid the need for a costly public offer.

Under this arrangement *shares are placed with* stockbrokers which specialise in dealing for private clients or small pension funds, charities or trusts. They then sell them to their clients at the issue price. These brokers can assure their clients that they *will get shares,* so they do not have to take the chance of applying in the public offer. However, investors who go through brokers will have to *pay commission on the pur*chase whereas applicants in new issues pay no commissions.

MFI Furniture Group's issue, expected to value the company at over £750m, will involve a public offer of 25 per cent, an institutional placing of 65 per cent or more, and a financial intermediaries placing of up to 10 per cent.

The stags may not be pleased *by these changes,* but companies coming to the stock market must be pleased to see their shares heading into long-term holders hands at a *higher price and lower cost.*

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
J Bibby & Sons (UK)	Finanzauto (Spain)	Heavy vehicles	£86.2m	Revised offer
BICC (UK)	Unit of Reynolds Metals (US)	Cables	£55m	Bargain strategic buy
Fiat (Italy)/Sasda (Algeria)	JV	Car manufacture	£37.2m	Fiat continues overseas development
Dasa (Germany)	Space systems Loral (US)	Satellite manufacture	£30.8m	Dasa taking 12½ stake
Clancy Shulman (US)	Unit of Saatchi & Saatchi (UK)	Market research	£5.7m	Proceeds to cut debt
CPC International (US)	PZKS Amino (Poland)	Dehydrated foods	£4.8m	Privatisation inching forward
IRI (US)/Addison (UK)/ GFK (Germany)	NMRA Retail Audit (UK)	Market research	£1m	Another Maxwell unit sold
Clintec (US/Switzerland)	Unit of Roussel-Uclaf (France)	Enteral nutrition	n/a	Roussel refocussing on core
Conoco (US)/ Arkhangelskgeologia (Russia)	Polar Lights (JV)	Oil	n/a	Oil field development
Forte (UK)/ENI (Italy)	JV	Hotels	n/a	Hotel management deal

Source: FT Mergers + Acquisitions International

SmithKline in Italian co-promotion drug deal

By Paul Abrahams

SMITHKLINE Beecham, the Anglo-American healthcare and consumer group, has *signed a co-promotion deal* with Sigma-Tau, the Italian private healthcare company, to sell a drug in the US for degenerative disorders – including Alzheimer's disease.

Sigma-Tau already has a worldwide co-marketing agreement with Roche of Switzerland for the drug, known as Alcar.

The three companies will promote the drug together. Alcar, which was launched in Italy in 1986, is presently in *phase III trials in the US.*

Results from the US trials, involving 400 patients at 27 clinical trial sites, are expected during the first quarter of next year. Previous trials in Italy showed the drug could retard dementia in Alzheimer's disease, improving attention span, long-term memory and verbal ability.

Meanwhile, SmithKline is developing two drugs, oxiracetam and denbufylline for the treatment of Alzheimer's.

The company said the agreement would not affect their development. It added that the experience the group gained from marketing Alcar would help it later when selling its own compounds.

● The US Food and Drug Administration is investigating reports that some individuals who smoked while using nicotine patches had heart attacks. It said a hospital in Massachusetts had reported that five heart attack patients had used nicotine patches *while smoking.*

Central bank quashes Unibank rumours

By Hilary Barnes in Copenhagen

DENMARK'S Nationalbank, the central bank, yesterday promised to provide cash support to Unibank, the country's second largest commercial bank, should support be necessary.

The central bank said that rumours concerning Unibank were "unfounded".

The action by Nationalbank follows a spate of rumours on Friday that Unibank was in serious difficulties, which caused an unknown number of depositors to withdraw their *funds from the bank.*

The bank itself issued a statement to its staff on Friday afternoon denouncing the rumours as completely untrue.

The Finance Supervisory Board, the bank sector's watchdog, also issued a statement *late on Friday saying* that "the rumours which have come to our knowledge have absolutely no basis in reality."

Unibank made a DKr1.8bn (£160m) loss in 1991 and it is expected to report a substantial loss again in the first half of the current year, both because bad loss provisions will remain high and because falling bond and share prices since Denmark rejected the Maastricht Treaty in the June 2 referendum will cause substantial unrealised losses on bond and share portfolios.

The bank's capital adequacy ratio at the end of 1991 was 10.7 per cent compared with the Danish minimum legal 10 per cent and Mr Steen Rasborg, chief executive, said that the ratio remains between 10 per cent and 11 per cent.

Volksfürsorge sees profit rise in 1992

VOLKSFÜRSORGE, the German insurance group, expects to book a rise in earnings in 1992, as a restructuring drive in its marketing organisation begins to bite, Reuter reports from Hamburg.

Volksfürsorge's group premium income rose 8.9 per cent in 1991 to DM4.89bn (£1.67bn) against DM4.49bn a year earlier. Group net profit was up 23.5 per cent at DM91.6m (£31.3m) compared with DM74.2m.

Volksfürsorge said it expected this year to maintain dividend and additions to profit reserves at least at 1991 levels. It will be paying an unchanged DM12.50 per share.

Additions to profit reserves rose sharply last year from DM8.8m to DM18.3m in 1990.

At its life insurance unit Volksfürsorge Deutsche Lebensversicherung growth was muted in the first five months of 1992 as a steep rise in new business in eastern Germany tapered off.

Compared with January-May 1991 results the value of insurance policies was down 11 per cent at end of May, although premium income was up 6 per cent.

For property insurance arm Volksfürsorge Deutsche Sachversicherung the group is counting on a continuation of the postitive developments.

Expansion planned by Chicago Mercantile Exchange

By Barbara Durr in Chicago

THE Chicago *Mercantile Exchange* plans to build a second trading floor directly above its current floor.

The $26.6m (£14.3m), one-year project will double the CME's trading capacity and *result in the world's largest* exchange trading facility.

The CME anticipated the expansion when it built its office tower in 1983. The building has 30,000 sq ft empty space where the new trading floor will be placed.

Mr Jack Sandner, CME chairman, said the exchange needed to grow to alleviate crowding. Trading volume over the last decade had grown 222 per cent. *"Our most successful products* – interest rates and currencies – are overcrowded to the point where new business opportunities may be missed if we do not make this move."

The exchange's plans to expand its *index products, with new contracts on* the Russell 2000 small capitalisation index, the FT-SE 100 and the Goldman Sachs commodity index have made the need for a larger space more urgent.

The CME will move its interest rate and currency group products to the new floor next year. The floor will have 16 new trading pits and 770 member-firm booths.

● The Chicago Board of Trade, also overcrowded, *is looking* to build a new trading floor as well. However, the CBOT is housed in a 1929 landmark building without any expansion capability.

The exchange is consequently looking at other sites, but any of these is expected to cost the exchange over $100m to construct.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Price for Trading on 21.06.92: Pool purchase price	Pool Prices for Trading on 24.06.92: Pool purchase price	Pool selling price
[illegible]	[illegible]	[illegible]	[illegible]

Prices are determined for every half-hour in each twenty-four hour period. [illegible]

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Price for Trading on 20.06.92: Pool purchase price	Pool Prices for Trading on 23.06.92: Pool purchase price	Pool selling price
[illegible]	[illegible]	[illegible]	[illegible]

Prices are determined for every half-hour in each twenty-four hour period. [illegible]

NGC Settlements Limited

Brother slims down bloated product range

The Japanese equipment maker has embarked on a critical restructuring, says Robert Thompson

In the foyer of the Brother *Industries building, a smiling photograph of Mr Juan* Antonio Samaranch, president of the International Olympic Committee, congratulates the Japanese company on sitting at the top table of Olympic corporate sponsors along with Coca-Cola, 3M, Philips and a few others.

Having already paid for its high profile, Brother should be able to bask in Olympic year publicity. Instead, the year of Barcelona has become an important test of strength for the maker of information equipment, sewing machines and other household electric appliances.

With profits under pressure, Brother has just announced a restructuring plan that could become commonplace among Japanese manufacturers, many of which are burdened by too broad a product range and *struggling in overcrowded consumer* and business equipment markets.

Another problem not unique to Brother is the side-effect of having achieved the admirable aim of producing high-quality goods at reasonable cost – the company has consistently reported poor operating profits and has been dependent on non-operating items, such as profits on stock sales, to boost its earnings.

The weakness of Japanese stock prices has not only *increased the cost of capital for* manufacturers such as Brother, which lifted its long-term institutional borrowing from zero to Y3bn ($23.8m) last year, but it has also denied the traditional easy profits on marketable securities.

For Brother, these circumstances were behind a mediocre operating profit of Y486m last year, down from Y2.35bn. The company would have reported a loss were it not for a change in pension plan accounting that produced an operating gain of Y669m.

Sales for the year were down from Y186bn to Y165.2bn. Net profit rose slightly from Y3.2bn to Y3.6bn, thanks mainly to a Y1.1bn increase in gains on property and equipment sales, and an extra Y699m in gains on stocks sold.

In response, Brother plans to cut its product range by about *30 per cent to 700 items*, transfer 10 per cent of its 5,300 Japanese workers to new ventures, increase the percentage of parts produced in-house, and make research and development operations more market sensitive.

Mr Tamotsu Shimizu, the company's managing director, said a slowing economy had forced the restructuring. Office automation equipment and industrial machinery markets, *already overflowing with competitors*, were made all the more difficult by capital spending cuts. Meanwhile, sales of its old mainline product, home sewing machines, rose by 18 per cent.

He reckons that reducing the product line by 30 per cent will reduce sales by only 10 per cent, as the items to be discarded are clearly not Brother's best sellers.

At the same time, the company is hoping that a focus on successful products will eventually lead to an increase in sales and, most importantly, stronger profits.

"If it's not contributing to profits, we will no longer make it. Sometimes you continue to produce a loss-making item because it is something that your customers want and you have to keep their loyalty," Mr Shimizu said. Items to be pruned, *he says*, will include white goods and older-style sewing machines.

Asked whether the company had tolerated losses in order to secure market share, tilted his head back, closed his eyes and said: "Yes, that's true." He explained, for example, that US discount stores wanted high-volume, low-cost deals that sometimes force a company to take losses.

Mr Shimizu pointed to a curious contradiction that Brother was trying to resolve. Its *international sales division* is wholly owned and tends to produce good-quality market research material for product developers, while market trends are less well-tracked at home, where sales are handled by an affiliate of the company.

"Within Japan, we have been product-driven and we have got to become more market oriented," Mr Shimizu said. Again, Brother is one of many Japanese manufacturers reaching this conclusion, as the boom years of the late 1980s – when GNP expanded at 6 per cent and 7 per cent and the stock market soared – gave over-confident producers the impression that virtually anything would sell.

During this period, companies rapidly introduced slight variations on existing products and also attempted to squeeze into new markets. The steel companies elbowed their way into electronics, the camera makers attempted to re-establish themselves as office equipment companies, and the consumer electronics makers launched hundreds of new items each year.

Times have changed. Japanese car makers are at least talking about slowing the flow of their new releases, while Hitachi, the consumer and commercial electronics company, wants to lengthen the life-cycle of its products to reduce expenditure on research and development.

But, in spite of weak earnings and murmurings about reform, most companies are *yet to bite the bullet, and there* are doubts as to whether Brother's changes go far enough.

For example, the planned shift in parts sourcing only aims to increase in-house components from 12 per cent to 13 per cent of all parts. The company also wants to maintain Japanese production at 80 per cent of the total, though it hints that south-east Asian and Chinese factories will probably take a larger share if profits continue to falter.

Mr Shimizu is confident that the success of new ventures will allow the company to soak up excess labour, making redundancies unnecessary. One of those new ventures is a *karaoke* (singing machine) systems company, Joysound, of which he is a director.

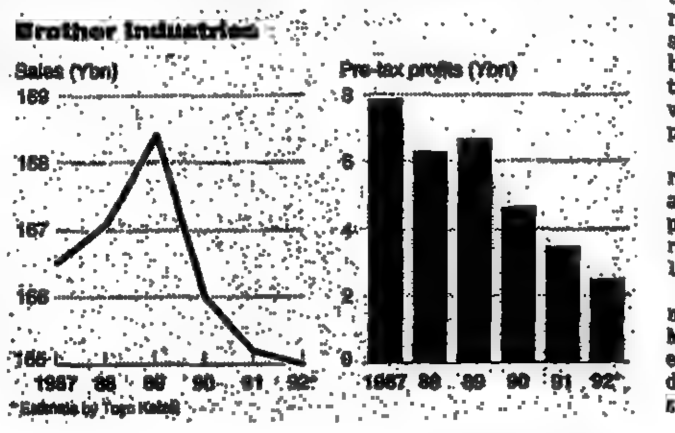
Brother plans to provide *karaoke* hardware and software in Japan, and would eventually like to go international. However, the company could find the karaoke room as crowded as the white goods market and, in two years the company may be reckoning as to whether the start-up funds could have been better spent shoring up its position in information equipment, which accounts for about 40 per cent of sales.

The company is genuinely reassessing the cost of being an Olympic star, and contemplating whether to be a corporate front-runner again at the 1996 games in Atlanta.

"They want a lot more money for Atlanta," explained Mr Shimizu, aware that Brother's presence in the main stadium is less important than its survival in the market.

Brother's keeper: the company hopes a focus on successful products will lead to stronger profits

Brother Industries



*Estimate by Yogo Katsuji

NEWS IN BRIEF

Corning takes $16m charge on implant business

CORNING, the US specialty glass group, will take a second-quarter charge of $16m after-tax, or 9 cents a share, Karen Zagor reports from New York.

The charge covers costs at its Dow Corning venture relating to its discontinued silicone breast implant business. Dow Corning is a 50-50 venture *between Corning and Dow* Chemical.

■ **Upjohn**, the US drug company, has had its contraceptive drug Depo-Provera, recommended for approval by an advisory panel of the US Food and Drug Administration, Reuter reports from Washington.

The panel said its concerns about *breast cancer risks* were allayed by a World Health Organisation study showing little increased risk.

■ **Toronto Stock Exchange** has postponed by at least six months plans to replace its trading floor with a fully-automated trading system, Bernard Simon reports from Toronto.

The exchange, the second busiest in North America by volume, now expects to make the change in the fourth quarter of 1993. It needs more time to test the computerised system and train staff.

■ **Shell Oil**, the US unit of Royal Dutch/Shell, the Anglo Dutch oil group, is selling its Shell Mining coal-mining subsidiary to Zeigler Coal for an undisclosed sum, Karen Zagor reports.

Shell Mining had 1991 revenues of $600m, or less than 3 per cent of Shell Oil's $3.4bn. Zeigler, which is privately held, quadrupled sales by acquiring BP's Old Ben Coal unit in 1990.

● **Orion Pictures**, an independent US film studio operating under bankruptcy protection since December, has won a three-week extension to file its latest reorganisation plan, Karen Zagor reports.

Tapie disposal plan set back as Testut reveals loss

By Alice Rawsthorn in Paris

THE fortunes of Mr Bernard Tapie, the controversial businessman who was recently forced to resign from the French cabinet because of his involvement in a fraud case, took another knock yesterday when Testut, a company controlled by the Tapie group, disclosed consolidated losses of FFr68.01m ($12.8m) for 1991.

Testut, a weighing machine business, is one of the companies recently put up for sale by Bernard Tapie Finances (BTF), Mr Tapie's holding company, which owns 88.75 per cent of its equity. BTF has been forced to make disposals in order to reduce the debts incurred by its controversial acquisition two years ago of the Adidas sporting goods business.

When BTF recently announced its 1991 results – which showed it had slipped into a net loss of FFr294.9m after net profits of FFr47.97m in 1990 – the holding company said it had made provisions for its losses on both Testut and Terraillon, another weighing machine maker.

Testut last year saw its sales rise sharply to FFr446.73m from FFr291.4m in 1990, according to its accounts published yesterday.

Mr Tapie has been charged with fraud concerning his role in the disposal of an electronics distribution company to Toshiba, the Japanese technology group.

French insurance group returns FFr241m profit

By Alice Rawsthorn

GARANTIE Mutuelle des Fonctionnaires (GMF), the French insurance group, produced a net profit of FFr241m ($45.6m) last year. This was after making a FFr29m provision for a tax levied by the French government on the insurers for the care of victims of HIV, the virus which causes the AIDS disease.

GMF is comprised of a group of *mutuelles* – state-controlled companies that provide financial services, including insurance and banking, for public sector employees. The GMF group also has a controlling stake in FNAC, the largest *record retailer in France*. FNAC is now locked in a battle with Virgin, the British retailing group, in the French music market.

Mr Jean-Louis Pétriat, the flamboyant businessman who chairs both GMF and FNAC, told the annual meeting at Strasbourg this weekend that GMF had increased its turnover in 1991 by 3.2 per cent to FFr6.4bn and that the number of policy holders had risen by the same percentage to 2.92m.

NRI TOKYO BOND INDEX

December 1985 = 100	18/6/92	Average yield (%)	Last week	12 wks ago	26 wks ago
			PERFORMANCE INDEX		
Overall	174.50	5.38	173.75	171.94	167.52
Government Bonds	173.07	5.28	172.17	170.85	165.63
Municipal Bonds	175.52	5.41	175.14	172.93	169.45
Govt.-guaranteed Bonds	178.35	5.66	177.90	175.45	171.74
Bank Debentures	170.55	5.07	169.80	167.77	163.42
Corporate Bonds	176.87	6.18	176.51	174.03	170.34
Yen-denom. Foreign Bonds	181.55	6.65	181.21	178.68	173.79
Government 10-year†	5.68		5.73	5.59	5.84

† Estimated par yield

Source: Nomura Research Institute

INTERNATIONAL CAPITAL MARKETS

UK GILTS

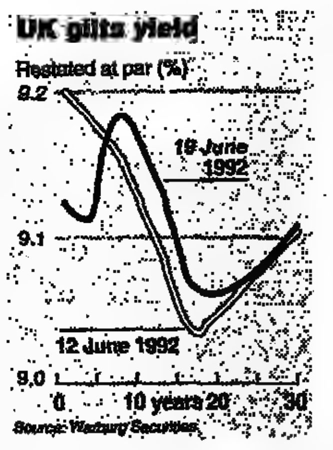
Funding fears depress long bonds

WORRIES about funding overshadowed good news on inflation, leading to a slight rise in yields at the long end of the gilt curve.

Talk in the market centred on the Bank of England's auction on Wednesday of £2.75bn of 9 per cent bonds maturing in 2012. Assuming the auction *succeeds, the Bank will have* disposed of nearly half the gilts it will need to sell to meet this financial year's projected public sector borrowing requirement (PSBR) of more than £30bn.

Even though in the first three months of the year the Bank has made good progress in gilt sales, fears are growing that the pace of funding may have to be maintained because of the deterioration in public finances. Consequently the likely large glut in supply would almost certainly reduce prices, pushing up yields.

Anticipating such a move, prices fell at the long end of the yield curve. At the short end there was a firmer floor for prices, a result of speculation about a reduction over the summer in UK base rates, now at 10 per cent.



The 9 per cent bond due in 2008 saw its price slip by a quarter of a point over the week, closing on Friday at 99¼. *Its yield was pushed up 3 basis* points to 9.04 per cent. As for the shorter dated 8.75 per cent stock maturing in 1997, the price was little changed at 98⅝ for a yield of 9.11 per cent.

Fears about growing deficits were bolstered by the announcement of a £3.1bn PSBR in May. Even though this was a smaller figure than the market had expected, the underlying trend is that the Treasury's projection of a £28bn deficit for the year to next March will be comfortably exceeded.

Assuming the deficit turns out to be closer to £32bn, that will leave about £36bn of gilts to be sold for the year as a whole, accounting for redemptions. Since the beginning of April, the Bank is believed to have sold nearly £13bn of gilts.

Last week also saw a reminder of the weak inflationary forces in the UK economy, a result of only small increases in demand over the past few months. Growth in average earnings, as measured at an underlying level by the Employment Department, fell to its lowest level for 25 years in April – 7 per cent on a year-on-year basis – and is expected to fall further in the next few months.

The slowdown in the rate of earnings growth was spread across all sectors of the UK economy. Average earnings growth for manufacturing employees fell from 7.75 per cent in March to 7.25 per cent in April.

Indications that any recovery from the recession will be fragile were supported by news of a large decline in consumer confidence and a report from the Confederation of British Industry that manufacturers were expecting output to grow only slowly.

Such indicators underline how the pressures pushing up prices throughout the economy will stay muted, which is good news for the gilt market. However, a slow or non-existent recovery will increase the PSBR, and produce a still higher figure in 1993-94.

For the time being, the gilt market is less impressed by the inflation outlook – which it reckons it has known about for some time – and is concentrating on the funding aspects which some economists think could lead to a dire time for gilt investors in months to come.

Peter Marsh

US MONEY AND CREDIT

Economic data prove disappointing

IT IS NOT exactly another double dip (or, to be exact, a triple dip), but Wall Street is having to revise its forecasts in the wake of the most recent economic data.

After the solid 2.4 per cent growth achieved in the first quarter (that figure is due for revision this week but little change in the number is expected), economists are now predicting the economy will have probably grown not much more than 1.5 per cent during the second quarter.

*The reason for this depress*ing downward revision is last week's raft of economic statistics which suggested that the economy is not growing as fast *as originally hoped.*

The clearest indication of the need to revise second-quarter GDP numbers came from the April trade data. The figures *released by the Commerce* Department on Thursday showed that the merchandise trade deficit widened in April from $5.6bn in March to almost $7bn, the largest trade shortfall since November 1990.

The reason for the widened deficit was a 1.9 per cent drop in the value of exported goods (down to $36.4bn) and a 1.6 per cent increase in imported goods (up to $43.3bn). The drop in exports was particularly worrying, as it confirmed that the economic travails of foreign countries could prove a drag on US economic growth over the next six to 12 months.

Until April, the US was at least able to rely on steadily growing export sales to aid the domestic recovery. If that particular prop is now removed, the recovery in the US may prove to be even more anaemic than feared. What is more, the rise in imports during April was not necessarily evidence of increased domestic demand, but more a reflection of higher *oil prices.*

Hence the downward revision in forecasts for second-quarter GDP, and economists are now predicting flat export and modest import growth over the rest of the second half, neither of which is much use to the US economy.

Most of the rest of last week's news was also on the bearish side. While May housing starts rose a handsome 11 per cent, all it did was reverse two months of declines. *Clear proof of a sustained increase in* housing activity has yet to be discerned.

The latest snapshot of retail sales was also unfavourable, with the Johnson Redbook service reporting that department and chain store sales dropped 4.5 per cent on a seasonally adjusted annual rate between May and the first half of June. Labour market conditions also show little sign of improvement, with weekly jobless claims falling a meagre 2,000 in the latest week.

So will all the economic gloom presage another interest rate cut by the Federal Reserve? Probably not, judging by the Fed's "Beige Book" report on economic conditions, released last week. The tone of the book was cautiously optimistic and suggested that the economy continued to improve across the country, albeit at a slow pace.

The Beige Book depressed the Treasury markets because its message seemed to be: steady as she goes. Some economists, however, are hopeful that the Fed will ease policy one more time.

They believe that if retail sales, labour market conditions and the housing market all remain weak – or at least not strong enough to fuel a strong recovery – then the Fed will lower interest rates again.

Although predicting the Fed's actions is a dangerous game, bond market optimists think both the Fed funds rate and the discount rate will be *cut by half a percentage point* within the next month, quite possibly in early July.

Patrick Harverson

EUROPEAN BONDS

Irish treaty referendum sparks rally

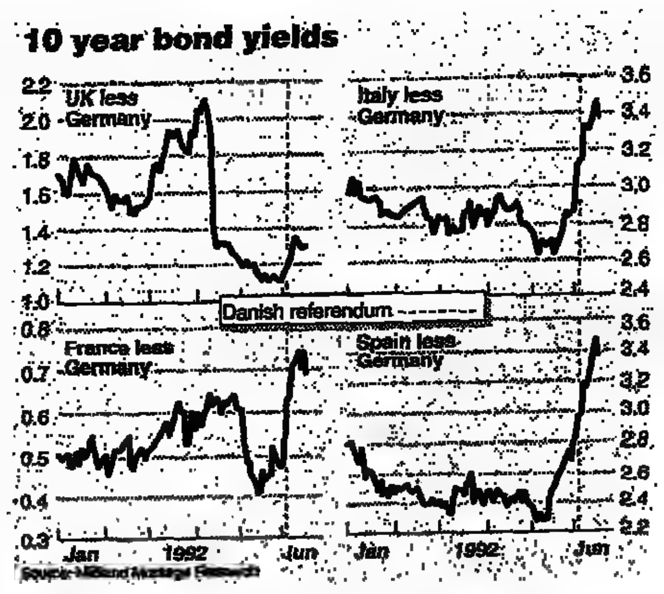
EUROPE'S government bond markets shed their gloom and rallied as Ireland voted in favour of the *Maastricht* Treaty on Friday, thereby reviving hopes of European economic and monetary union (EMU).

Having spent much of the last week nervously waiting *for the Irish referendum to* take place, the bond markets rose quickly on the news that Ireland's voters had said yes to Maastricht by a tidy majority. The chief beneficiaries were the higher-yielding markets: Italy, Spain, France, the UK and the Ecu bond market.

All of these – but particularly the Italian, Spanish and Ecu bond markets – were hit severely when the Danes overturned the convergence applecart by voting against the treaty on June 2, and they have suffered further falls subsequently due to uncertainty about the prospects for EMU.

However, Ireland's referendum result revived confidence that the EC would succeed in pushing ahead with EMU, and not surprisingly it was the high-yielding markets which showed the strongest *gains* after the vote.

However, it seems likely that the sense of optimism will be brief. Indeed, not all of the *high-yielding markets man*aged to hold on to their gains on Friday. Spain, France and the UK fell as investors and dealers took profits, and the *immediate future is unlikely to* hold much hope of a strong rally.



"The whole episode of the last two weeks [since the Danish referendum] has made investors more circumspect about convergence," said Mr *George Magnus, international* economist at S.G. Warburg. "Even if the politicians say we are back on the road to monetary union, people are more *suspicious and will tend to* look at the domestic fundamentals in future."

The Maastricht Treaty has to be ratified by all 12 member *countries. France is due to* hold a referendum in the autumn. As the date approaches the markets could well suffer bouts of nervousness, *particularly as investors* concentrate more closely on the economic problems of the *high-yielding markets*, especially Italy and Spain.

Italy has had a particularly rocky ride since Denmark voted against Maastricht. The *combination of political* and economic problems and devaluation fears sent investors scurrying for safer D-Mark assets after the Danish referendum.

Last week, the Italian bond market see-sawed wildly. News of a solution to the country's political problems and rumours that withholding tax on bonds would be removed helped to lift the market, but devaluation fears wiped out the gains.

Italy has been without a government for about two months. *Last week,* President Oscar Luigi Scalfaro named Mr Giuliano Amato, a Socialist, as the new prime minister. While the Italian bond market took heart from the appointment of a prime minister, economists were quick to point out that Mr Amato's chances of success would depend on the formation of the new government.

The other positive factor – news that the withholding tax on Italian bonds will be lifted – also proved only a temporary boost for the market with many traders remaining sceptical. "There has been a tendency to circulate rumours regarding the lifting of the withholding tax when the currency and/or the bond market are in deep trouble. This is one of those situations," said Mr Karim Basta, an economist with Merrill Lynch.

Indeed, the Italian bond market spent much of last week being buffeted by devaluation rumours. The Bank of Italy was forced to raise its emergency funds rate from 12.5 per cent to 13 per cent shortly after the Danish referendum in order to protect the lira.

However, the currency remains susceptible to devaluation rumours and the news that one of the large US securities house expects to see a 5 per cent devaluation in the lira caused further alarm in the markets on Wednesday and Thursday. This prompted the central bank to intervene in the foreign exchange markets to support the currency and to deny the possibility of a currency devaluation.

Sara Webb

FT/ISMA INTERNATIONAL BOND SERVICE

	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrants ex yld = exercise yield at current warrant price.

Closing prices on June 19

US SYNDICATED LOANS

Banks regain enthusiasm for highly leveraged deals

HIGHLY leveraged transactions (HLTs) in the US syndicated loan market are creeping back into fashion in the wake of a strong high-yield bond market, a recovering economy and historically low interest rates.

Although the rate at which banks are taking on HLT deals today is nowhere near that seen at the height of the market's boom in the late 1980s, the volume is running at a pace that should easily exceed 1991's total.

After limiting their participation in HLTs because of loan default problems at the beginning of the 1990s, and then watching their HLT portfolios shrink as the surviving borrowers paid off their debt, US banks are re-entering the HLT market with renewed enthusiasm.

Typical of the deals currently in syndication is the $400m financing for the supermarket group Grand Union. The deal is being put together by Bankers Trust and consists of three tranches – priced at spreads of between 300 and 350 basis points (bp) over the London interbank offered rate (Libor), and paying participation fees of up to 325bp.

Bankers Trust has been in the vanguard of much of the new HLT business. It has also joined Chemical Bank and Barclays Bank in constructing a $680m deal for Coltec – priced at 275bp over Libor and paying fees of around 300bp – and is also working on a $750m HLT for soft drinks group Dr Pepper, and a $470m deal for California supermarket chain Ralph's. Both of the deals are being put together alongside initial public offerings (IPOs) of stock.

In contrast with the mid to late 1980s, today's HLTs are not being used for mergers or acquisitions, but for deleveraging – paying off loans that carry high interest rates with funds raised through borrowings at lower rates. After years of carrying junk, companies want to retire their high-yielding debt, simplify their capital structures and generally clean up their balance sheets.

As Mr Dick Trask, head of syndication at Citibank in New York, said of the market today: "You don't have the feeding frenzy, acquisition-driven stuff you saw in the 1980s." Today it is strictly about refinancing, deleveraging and general corporate restructuring.

The watershed deal for the HLT market may have been the huge $1.25bn syndicated loan in December involving textile company Burlington Industries. The loan, alongside the proceeds from a simultaneous stock offering, was used to retire or refinance all of the company's outstanding junk bond debt.

The Burlington deal, led by Bankers Trust and Chemical Bank, was typical of many to follow. It involved a company overloaded with costly debt that managed to turn its business around sufficiently to persuade bank lenders and equity investors to provide fresh funds for a complete overhaul of its balance sheet.

It was also typical in that the HLT was put together alongside an IPO. As one banker explained: "Banks are looking at deals where the original HLT has seasoned for a couple of years, and where the company is now getting back to the banks and saying: 'We'll bring in new equity to improve the capitalisation and pay you a lot of fees'." For many banks, it is a difficult offer to turn down.

Not only are the fees on new HLTs enticing – some deals are paying 200bp to 300bp – but so is the pricing, which on recent transactions has been nearer the top end of 250bp to 300bp above Libor, with even a few deals boasting margins as high as 350bp above Libor.

At the same time, the risk profile of borrowers has improved, and the companies are coming to the market, many of them after HLTs a few years ago, with a reputation for much sounder management than in the late 1980s.

As Mr Charles Kiley, managing director in Bankers Trust Securities' syndicated loans department, says: "There has been an improvement in the confidence level of the bank market, which is a function of the economy and of these particular companies being pretty good success stories in their own right."

The recent decision by the US regulatory authorities to drop the HLT designation on leveraged syndicated loans has also helped the market. The authorities were worried that the HLT label, which scared away many potential lenders, was preventing companies from raising funds. Its removal could free up a fresh supply for capital-hungry companies.

The improvement in the economic outlook has also been a boon. "Banks and other investors are feeling more confident [about the economy] today than a year ago, and they are open for business," explained Bankers Trust's Mr Kiley.

As for the outlook, a lot will depend on developments in the IPO market, without which many recent HLTs would not have been possible. Recent signs that investor demand for IPOs is waning suggests the growth of HLTs may slow. Optimists, however, are hoping that as the economy recovers, and interest rates stay low, new life will be breathed into acquisition-related HLT business.

Patrick Harverson

Polish airline secures financing

THE biggest aircraft financing deal yet for an eastern European carrier has been secured by Bankers Trust, writes Daniel Green.

The bank will act as adviser to Lot-Polish Airlines in arranging a $264m, 12-year financing deal guaranteed by the Export Import Bank of the US (Eximbank).

The figure covers 85 per cent of the cost of nine Boeing 737s to be delivered over the next two years. The balance of the financing will be raised separately by Lot.

The structuring of the deal allows the Polish carrier to pay interest at a floating rate with an option to fix at a later date.

Mr David Flitterman, of the Bankers Trust's eastern European group, said that working with Lot was straight forward because it had been among the first east European airlines to purchase US-built civil aircraft and therefore was known to western financial institutions.

"Lot bought two Boeing 767s two years ago," he said.

The Eximbank-guaranteed funding will be used to finance the purchase of five Boeing 737-500 and four 737-400 aircraft.

Deliveries are scheduled to begin in November.

Anthony Harris

Maxwell questions for the City

THE ARREST of the Maxwell brothers will in one sense take the pressure off the authorities, who needed to be seen to be doing something; but in another, it ought to give them an even more awkward time.

Now that we are to have a prolonged holiday from the absorbing questions of who knew what and who signed what, we should be facing the larger issues – not just of pension arrangements, but of arrangements in the City. Those who come out of the affair with any credit are thin on the ground.

The questions are too numerous even to list in a short column, so I will concentrate mainly on three: custodianship, including share registration; the abuse of collateral; and self-regulation.

It ought to be simply impossible for any borrower to pledge as collateral securities which he does not own, for ownership should be a simple matter of fact. Ambiguity arises only because of slow back-office operations, and the lack of any clear, legally defined custodial function.

In New York these matters are better defined. Custodial and back-office operations are run, very economically, by a handful of specialists with clear legal obligations and no possible conflicts of interest. Similar arrangements should certainly be legislated here for assets held on trust; and if the banks and brokers are seriously interested in cost-cutting, the practice would quickly become general. Indeed, it is only because of the easy-money laxity of the 1980s that these functions are not already contracted out.

Of course, the Maxwell problems would never have arisen had not stock-lending been a normal feature of pension fund life, and had not the banks been willing to extend credits on collateral which they would routinely have withheld. This could be a matter for legal reform; my post-bag suggests that I am not quite so lonely as I supposed in arguing for a law ending the banks' prior claim on pledged assets.

The main reasons for this are moral and economic: it seems both wrong and economically damaging that the main losses in a bankruptcy should fall not on those who created the risk by excessive lending, but on suppliers and others who were in no way involved.

There is also a fundamental question of monetary control. Existing arrangements make it much too easy to monetise existing assets while retaining ownership. This helps to explain why credit booms run so far out of control, and why interest rates have had to be so much higher since deregulation. The Maxwell story of apparent abuse of this system is only a footnote: the system is wrong.

Finally, the Maxwell affair must cast still further doubt on the whole London system of self-regulation, already under question from earlier scandals and because of the present imbroglio at Lloyd's. The apologetic self-examination from Imro deserves some sympathetic attention.

The regulators were clearly too ready to give the benefit of any doubt; but would anyone have acted differently in their position? The whole system is redolent of cups of tea and Governor's eyebrows – effective when the City was a club and a blackball fatal, but increasingly inadequate to a deregulated system.

This is not just a question of attitude, but of manpower and rewards. Effective policing cannot be left simply to the serious fraud squad. An unregulated market surely needs policing by a basically adversarial body, properly financed and staffed, on the lines of the Securities and Exchange Commission in Washington.

None of this will prevent scandals; still less will any official safety-net system, such as US deposit and pensions insurance. The US savings and loan scandal has already given a new and deeper meaning to moral hazard, and there is good reason to fear that American company pensions will be defaulting on a scale which will pose yet another fiscal problem for Washington.

But a better policed City would be more widely trusted, and banks forced to be prudent might not be forced into overcharging like the unregulated public utilities they are. Scandals are only the smell of a decay with much wider effects.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nissan Capital of Amer.†	150	1997	5	zero	70.775	Fuji Intl. Fin.Plc.	-
OKB†	200	2002	10	7¼	101⅛	J.P.Morgan Secs.	7.425
Nacional Financiera†	100	2002	10	9¾	99¼	J.P.Morgan Secs.	9.436
Jardine Intl.Fin.†	48.7	1995	3	zero	85.635	Mitsubishi Fin.	-
Eagle 2(c)††	43	1996	4	(c)	100	Daiwa Europe	-
Salomon Inc.(g)††	300	1995	3	(g)	100	Salomon Brothers	-
Banco Internacional(h)††	50	1995	3	(h)	99.025	Man.Hanover	8.500
Asian Dev.Bank†	500	2002	10	7½	99.492	Goldman Sachs	7.574
Cariplo(k)††	150	1999	7	(k)	99.75	Nomura Intl	-
Daiwa Intl.Fin.(Cayman)(l)††	78	2002	10	7½	100	Daiwa Bank	7.500
Den Norske Bk.(o)†	50	2002	10	(o)	99¼	Goldman Sachs	-
ECUs							
Credito Italiano(b)††	150	1997	5	(b)	100	IBJ Intl.	-
D-MARKS							
SSAB(a)††	500	1996	4.167	(a)	100	Morgan Stanley	-
Fuji Marble***	10	1997	3	9	101.875	Mitsubishi Bk.(Deutsch)	8.524
Kingdom of Spain(e)††	2bn	2002	10	(e)	100.15	Dresdner Bank	-
JFM†	100	1999	7	8¼	102¼	Deutsche Bank	7.844
SWISS FRANCS							
Rabobank†	75	1996	3	7¼	101½	Swiss Volksbank	5.862
P.T. Intl Indorayon(i)***	80	1997	5.417	4¾	100	SBC	4.951
YEN							
Communidad De Madrid(f)††	15bn	2004	12	(f)	100.70	Daiwa Europe	-
Kobe Steel(m)††	20bn	1999	4.25	(m)	100.25	Nomura Intl.	-
Kobe Steel(n)†	30bn	1996	4.25	5.60	101.55	Daiwa Europe	5.18

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
AUSTRALIAN DOLLARS							
Toyota Fin.Australia†	100	1996	4	8	101.05	Hambros Bank	7.885
EBRD†	300	2002	10.25	9	102.482	SBC Dominguez Barry	8.615
CANADIAN DOLLARS							
Hydro Quebec(d)†	1.2bn	2022	30	9¾	98.734	Merrill Lynch Intl.	9.755
Canadian Nat.Railway†	200	1997	5	8.25	101.10	Scotiamcleod	7.975
BNP†	125	2002	10	8¾	101.40	Hambros Bank	8.536
OECC(j)†	100	1997	5	8	101.575	Kidder Peabody Intl.	7.610
AUSTRIAN SCHILLINGS							
IADB†	1bn	2002	9.68	7¾	101.5	Bank Austria	7.640
GUILDERS							
Asian Dev.Bank†	300	2002	10	8¾	100.90	ABN Amro	8.239
LUXEMBOURG FRANCS							
UAP Groep Nederland†	1bn	2001	9	9	102.2	Credit Europeen	8.638
Credit Romagnolo†	1bn	1996	4.417	9¼	102.05	Cregem Intl.	8.646
Electrolux A/B***	600	1995	3.167	9½	102.05	Credit Europeen	8.711

*Private placement. ‡Convertible. §With equity warrants. †Floating rate note. [illegible] a) Coupon pays 12.5bp over 3 month D-Mark Libor. [illegible]

WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | NETHERLANDS | SWEDEN (continued)

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

GERMANY

ITALY

NORWAY

SPAIN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA (continued)

HONG KONG

AUSTRALIA

MALAYSIA

SINGAPORE

Prices data supplied by Telekurs.

CANADA

TORONTO

4:00 pm prices June 19

MONTREAL

4:00 pm prices June 19

INDICES

NEW YORK

DOW JONES	Jun 19	Jun 18	Jun 17	Jun 16	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3285.35	3274.12	3287.76	3329.49	3413.21 (1/6)	87.76 (18/6)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	100.15	100.01	99.09	100.08	100.17 (19/5)	98.41 (20/3)	100.17 (19/5/92)	54.99 (1/10/81)
Transport	1305.44	1304.09	1308.20	1342.60	1467.68 (20/2)	1301.57 (8/4)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	213.51	212.69	212.82	214.63	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

Day's High 3313.17 (3313.71) Low 3285.35 (3265.49)

STANDARD AND POOR'S	Jun 19	Jun 18	Jun 17	Jun 16	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	403.67	400.96	402.26	408.32	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	475.78	472.35	474.02	481.44	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	34.31	34.15	34.27	34.91	35.80 (13/5)	32.40 (8/4)	35.80 (13/5/92)	8.64 (1/10/74)
NYSE Composite	221.96	220.61	221.45	224.72	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	379.39	377.49	379.74	386.12	418.99 (12/2)	377.49 (18/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	554.20	549.17	553.24	564.07	644.92 (12/2)	549.17 (18/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 12	Jun 5	May 29	year ago (approx.)
Dow Industrial Div. Yield	3.03	2.99	2.99	3.03

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. ‡ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

**Saturday June 13: Taiwan Weighted Price 4676.13, Korea Comp Ex. 580.80. ‡ Subject to official recalculation. *Calculated at 15.00 GMT. Base values of all indices are 100 except: Austria Traded, 862.20, HEX Gen., MIB Gen., ... and DAX – 1,000. JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 19th June 1992

	Stocks Traded	Closing Prices	Change on day
Meiji Milk Prod ...	14.1	1,030	+60
Sanyo-Kokusaku	6.5	684	+35
Morinaga Milk	6.1	691	+13
NPN Steel Corp ..	3.6	251	+1
Daikyo Kanko	3.7	749	-38
Nomura Sec	2.6	1,270	+40
Chiyoda Corp	2.3	1,820	+20
Toshiba Corp	2.2	601	+11
NPN Formula	2.2	694	+17
Toyota Motor Co	2.1	1,430	-10

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AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The maximum [illegible]

TIME: The time shown alongside the fund manager's name [illegible] The symbols are as follows: (▼) - 0001 to 1100 hours; (●) - 1101 to 1400 hours; (◆) - 1401 to 1700 hours; (♣) - 1701 to midnight. [illegible]

HISTORIC PRICING: The letter H denotes [illegible]

FORWARD PRICING: The letter F denotes [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible] FT Managed Funds Service.

[illegible] Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 - 379 - 0444.

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Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American ♥	5	251.0	251.0	267.1	0.86	41410
(Accum Units) ♥	5	295.4	295.4	314.4	0.86	41411
British	5	841.3	858.7	908.5	5.53	41416
(Accum Units)	5	1410.9	1440.0	1523.6	5.53	41417
European	5	340.4	340.4	362.0	1.45	41418
(Accum Units)	5	[illegible]	[illegible]	[illegible]	1.45	41419
Japan	5	91.77	91.77	97.64	-	41420
(Accum Units)	5	92.50	92.50	98.42	-	41421
New Pacific	5	203.6	204.1	217.4	1.61	[illegible]
(Accum Units)	5	210.7	211.2	225.0	1.61	[illegible]
[illegible]	0	155.2	157.8	167.0	2.50	[illegible]
Mixed Equity	5	128.8	130.2	137.8	2.82	[illegible]
Mixed Equity Acc	5	136.7	138.1	146.2	2.82	[illegible]
Mega Cash	0	96.81	96.81	96.81	9.31	[illegible]
(Accum Units)	0	121.6	121.6	121.6	9.31	[illegible]
Majority Stlg	1	100.95	100.95	101.96	8.97	[illegible]
Majority Stlg Acc	1	111.95	111.95	115.07	8.97	[illegible]

Sunderland Unit Inv Mngrs Ltd (1200)F
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries 0277 227300 Dealing 0277 261010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
International Jun 15	0	48.99	48.99	49.44	1.50	[illegible]

Sun Alliance Unit Tst Mngmt Ltd (1200)F
St Mark's Court, Horsham 0403 232323

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Equity	6	623.9	623.9	667.3	2.99	41423
North America	6	75.42	75.42	80.66	0.55	41424
Far East	6	85.26	85.26	91.19	0.54	41425
W'wide Bond	6	47.03	47.03	50.03	6.21	40426
European	6	67.54	67.54	72.24	1.54	41429
[illegible]	6	67.93	67.93	72.65	5.30	41430
Portfolio	6	57.31	57.31	61.29	1.75	41431
UK Leading Cos	6	44.72	45.32	48.21	3.03	-
Broker Trusts						
Intnl Equity	6	44.75	45.09	48.22	2.83	-

Sun Life of Canada Unit Mgrs Ltd (1000)H
Basingview, Basingstoke, Hants 0800 525725

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Growth	6	24.49	24.49	26.30	0.73	47795
Managed Assets	6	102.96	102.59	109.73	3.28	[illegible]
UK Income	6	32.30	31.60	33.89	[illegible]	41432
UK Growth	6	32.03	32.37	34.63	[illegible]	41433
Worldwide Growth	6	22.61	22.61	24.19	[illegible]	41434

Sun Life Trust Mngmt Ltd
101, Cannon St, London EC4N 5AD
Admin & Enq 071-606 4044 Dealing 071-606 6010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Master Portfolio ♦	5½	33.15	33.15	35.45	2.59	41435
Amer Growth Acc ♦	5½	40.15	40.15	42.88	0.16	41436
Cap Protector Acc ♦	5½	36.63	37.06	39.64	4.02	41439
Cap Protector Inc ♦	5½	31.80	32.15	34.39	4.02	41440
Euro Growth Acc ♦	5½	57.49	57.49	61.42	[illegible]	41441
Far East Grth Acc ♦	5½	77.21	77.21	82.98	0.55	41444
Japan Growth Acc ♦	5½	71.50	71.50	76.36	0.00	41446

Local Authorities Mutual Invest. Tst.
2 Fore Street, London EC2Y 5AQ 071-588 1815

M & G Securities Ltd

Morgan Grenfell Investment Funds Ltd

Allied Dunbar Assurance Plc

Century Life Plc – Contd.

Equitable Life Assurance Society
Walton St, Aylesbury Bucks HP21 7QW

Henderson Administration(z)
3 Finsbury Ave, London EC2 M2PA

Life Association of Scotland
113 Dundas St, Edinburgh EH3 5EB 031-550 5000

NEL Britannia Assce Co Ltd – Contd.

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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Pearl Assurance (Unit Funds) Ltd

Pegasus Assurance Ltd

Premium Life Assurance Co Ltd

Provident Mutual Life Assc. Assn.—Contd.

Prudential Assurance Co

Prudential Corporate Pension Funds

Scottish Amicable

Scottish Equitable Life Assce. Soc.

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline, call 0891 123456. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2128

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Allied Dunbar Intl Fund Mgrs –Contd.						
ADI 10th Amer Gthz	5	0.7766	0.7766	0.8206	0.16	44678
ADI Far East (z)	5	1.133	1.133	1.206	0.66	44679
ADI Gilt & Income(z)	5	0.2613	0.2613	0.2755	8.13	44680
ADI UK Cap Gth (z)	5	0.2373	0.2373	0.2527	3.4	44681
ADI Europe Fd (z)	5	[illegible]	1.173	1.247	1.64	44682
For conversion Prices of Shares Phone: 0624 662860						
Asset Global Funds Ltd (1200)						
Victory Hse, Prospect Hill, Douglas IoM 0624 620097						
European Equity	5	13.572	13.572	14.55	–	44689
UK Gilt	5	10.453	10.453	11.00	–	44690
Intl Equity	5	13.027	13.027	14.05	–	44691
International Bond	5	5.1065	5.1065	5.387	–	44692
[illegible]	5	[illegible]	[illegible]	[illegible]	–	47016
[illegible]	5	[illegible]	[illegible]	[illegible]	–	47015
Sterling Cash [illegible]	5	[illegible]	[illegible]	[illegible]	–	47017
CMI Fund Managers (IoM)						
Clerical Medical Hse, Douglas, IoM 0624 625599						
High Income	5	[illegible]	0.4921	0.5181	10.23	47293
CMI Core Portfolio Fund						
UK	5		£– 1.0130	1.0877	–	47540
USA	5		£– 0.9822	1.0421	–	47541
Japan	5		£– 0.4240	0.4512	–	47539
Equity & Law Intl Fund Mngrs Ltd						
Victory Hse, Prospect Hill, Douglas IoM 0624 677877						
Total Income Fd	5	95.33	95.55	100.56	10.01	41566
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 627610						
Intl Grth	5¼	466.6	466.6	500.0	0.9	45095
Leopold Joseph Fund Mngrs (IoM) Ltd						
PO Box 52 Athol St Douglas IoM 0624 661020						
L.J. International	5¼	91.58	91.58	98.491	–	44804
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas IoM 0624 662255						
Merc IoM Fund	5	104.5	104.5	111.5	6.2	45970

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Cater Allen Investment Management (CI)						
CA Gilt Income		6.40	6.69		17.94	44830
CA Gilt & Futures		1.046	1,100		7.27	44831
CA Equity Gwth		3.99	4.37		3.30	44832
Citibank (CI) Ltd "Citifunds"						
Short term Investment Funds						
High £ Jun 18			118.743		–	44842
Equity Funds						
Japan Equity Jun 18			57.370		–	44845
[illegible]			[illegible]		–	44849
[illegible]			[illegible]		–	44851
Citicurr Jun 22			372.766		–	44852
Bond Funds						
GNMA Bond Jun 22			$15.022	15.020	–	44855
HYB (A) Jun 22			$90,741.678		–	44856
EBC Trust Company (Jersey) Ltd						
EBC Amro Trustal Currency Fund Ltd*						
Income			$15.28	15.799	2.73	44895
Capital			$23.77	24.524	5.50	44894
*Offer price includes 3% prelim. charge						
International Income Fund						
Eurobd Long Term*			$34.03	35.5729	4.25	44892
*Offer Price includes 3½% Initial Charge						
Equitilink International Mngt Ltd						
First Aust Prime Inc Inv Co Ltd NAV June 18 C$13.31						
First Aust Prime Inc Inv Co Ltd NAV June 18 US$11.04						
NAV Diluted to reflect exercise of all Wrrts C$12.84 US$10.73						
Fidelity Investment (CI) Ltd						
Sterling American			£2.388	2.5131	–	44979
Fleming Group						
Robert Fleming Management (Jersey) Ltd						
Deutschland Inv Co NAV			DM16.53		–	45046
Foreign & Colonial Mngt (Jersey) Ltd						

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Focus on Yen trade

Now that fears over the future of European union have temporarily subsided, foreign exchange dealers will focus attention on the Japanese yen, writes James Blitz.

Ireland's overwhelming vote in favour of the Maastricht Treaty will reduce the volatilities seen in European exchange rates in the last fortnight. This will give traders a chance to analyse the other big economic event last week: the sharp fall in the Japanese stock market to a 68-month low.

The yen is being pulled in opposite directions by two factors. One is the fall in activity in the Japanese economy. This has raised fears that the Bank of Japan could ease policy, cutting interest rates and prompting a sell-off of the currency. On the other hand, there is next month's meeting of the Group of Seven leading industrial nations in Munich. There are again strong hints that the G7 will launch a concerted policy to keep the yen strong and reduce Japan's overwhelming trade surplus with the US.

The upcoming week will see the release of new data on Japan's economy. Today's money supply numbers are expected to register a record low in growth terms. Later in the week, there will be Consumer Price Index and labour market data, which, despite being lagging indicators, should confirm that inflation pressures remain subdued.

The dollar's weak trend, confirmed last week by a surprisingly wide US trade deficit for April, will continue through the week. Durable goods orders for May are out on Wednesday and personal consumption figures (for the same month) on Friday. But neither figure is likely to budge the view that the US economic recovery is, at best, sluggish.

UK clearing bank base lending rate
10 per cent
from May 5, 1992

£ IN NEW YORK

June 19	Close	Previous Close
£ Spot	1.8580-1.8590	1.8628-1.8633
1 month	0.94-0.92pm	0.95-0.93pm
3 months	2.74-2.71pm	2.76-2.73pm
12 months	9.15-9.05pm	9.27-9.17pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY MOVEMENTS

June 19	Bank of England Index	Morgan Guaranty Changes %
Sterling	93.0	-15.8
U.S. Dollar	62.2	-16.5
Canadian Dollar	99.0	-2.7
Austrian Schilling	110.3	+12.4
Belgian Franc	111.8	-1.7
Danish Krone	110.0	+3.9
D-Mark	117.1	+25.4
Swiss Franc	107.3	+15.3
Dutch Guilder	114.8	+16.4

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

OTHER CURRENCIES

[illegible]

CURRENCY RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

CHICAGO

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES – Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Crd: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	June 19	June 18	June 17	June 16	June 15	Jun 12	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.73	88.75	88.76	88.74	88.70	88.82	89.58	85.11	127.4	49.18
Fixed Interest	104.36	104.35	104.36	104.37	104.42	104.63	105.92	97.15	105.92	50.53
Ordinary	2006.6	1988.4	2022.1	2037.0	2026.4	2025.3	2149.7	1861.4	2149.7	49.4
Gold Mines	103.4	103.2	105.1	105.3	104.3	103.7	160.6	103.1	734.7	43.5
FT Act All-Share	1248.12	1238.10	1255.19	1263.20	1254.26	1260.82	1326.36	987.48	1326.36	61.92
FT-SE 100	2584.6	2562.7	2598.4	2616.3	2593.6	2603.7	2737.8	2382.7	2737.8	986.9
FT-SE Eurotrack 100	1154.66	1145.68‡	1158.48	1166.56	1159.75	1167.48	1199.56	1078.19	1199.56	900.45
FT-SE Eurotrack 200	1195.73	1186.54‡	1202.27	1207.66	1199.73	1207.66	1248.79	1120.52	1248.79	938.62

‡ Partial

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — FRIDAY JUNE 19 1992 / THURSDAY JUNE 18 1992 / DOLLAR INDEX

Figures in parentheses show number of lines of stock	US Dollar Index	% chg (a) since 31/12/91	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/91	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	147.02	-2.5	117.22	117.98	120.01	129.76	-1.7	4.21	146.21	116.20	117.14	118.96	128.95	153.68	140.94	140.14
Austria (19)	171.71	+3.1	136.91	137.80	140.16	140.46	+7.0	2.10	171.53	136.32	137.43	139.58	140.50	188.70	162.48	186.80
Belgium (46)	141.75	-1.8	113.02	113.74	115.70	113.09	+1.7	5.40	141.41	112.36	113.29	115.06	112.64	146.19	125.07	126.81
Canada (115)	124.40	-8.7	99.19	99.82	101.54	107.92	-5.5	3.40	124.90	99.26	100.06	101.62	108.26	142.12	124.40	140.42
Denmark (35)	233.21	-12.7	185.94	187.15	190.36	191.50	-10.8	1.91	233.82	185.83	187.34	190.25	191.84	273.94	226.81	240.13
Finland (15)	75.96	-2.6	60.56	60.96	62.00	68.35	+0.9	2.07	76.21	60.57	61.06	62.01	68.35	89.80	73.84	101.53
France (104)	160.68	+6.8	128.11	128.93	131.14	133.27	+9.0	3.53	159.42	126.70	127.72	129.70	131.91	168.75	148.06	128.82
Germany (65)	124.89	+6.4	99.58	100.24	101.94	101.94	+10.2	2.27	125.10	99.42	100.24	101.78	101.78	125.37	114.67	110.27
Hong Kong (55)	244.41	+36.6	194.87	196.13	199.50	242.71	+37.8	3.38	244.89	194.63	196.21	199.26	243.26	254.67	176.36	150.00
Ireland (16)	159.31	-5.1	127.02	127.84	130.03	131.81	-2.6	4.11	158.42	125.91	126.93	128.90	130.69	173.71	151.78	143.10
Italy (78)	69.50	-7.8	55.41	55.77	56.73	61.67	-4.8	3.39	69.85	55.51	55.96	56.83	61.93	80.86	68.39	75.52
Japan (473)	97.66	-28.1	77.87	78.37	79.73	78.57	-26.9	1.08	98.01	78.31	78.98	78.15	76.93	140.96	88.70	131.28
Malaysia (69)	239.73	+11.9	191.14	192.37	195.67	232.30	+3.5	2.69	239.21	190.11	191.65	194.62	231.89	250.16	212.49	238.51
Mexico (18)	1446.03	+5.9	1152.93	1160.40	1180.31	4935.14	+6.7	1.16	1412.34	1122.45	1131.58	1149.14	4820.17	1788.77	1376.91	990.63
Netherland (25)	160.60	+5.2	128.05	128.88	131.09	129.65	+8.9	4.32	160.47	127.53	128.57	130.57	129.16	165.22	147.88	134.44
New Zealand (14)	46.65	-0.7	37.19	37.43	38.08	45.48	-1.5	4.98	46.02	36.57	36.87	37.44	44.83	48.52	42.01	47.50
Norway (23)	176.50	-1.3	140.72	141.64	144.07	146.91	+1.5	1.72	178.07	141.52	142.67	144.89	147.98	192.95	161.26	195.47
Singapore (38)	223.50	+1.7	178.20	179.35	182.43	167.11	+1.9	1.98	225.17	178.95	180.41	183.21	168.26	229.63	192.75	198.28
South Africa (61)	235.49	-5.4	187.76	188.97	192.21	185.90	+7.2	2.77	234.95	186.73	188.24	191.18	184.40	263.60	203.16	234.57
Spain (50)	155.77	-0.4	124.20	125.00	127.14	116.47	+1.7	5.23	153.87	122.28	123.28	125.19	114.82	161.72	146.66	147.99
Sweden (27)	191.66	+6.8	152.81	153.81	156.44	160.73	+8.1	2.76	192.08	152.66	153.90	156.29	160.73	200.28	173.08	187.53
Switzerland (63)	108.22	+7.8	86.29	86.85	88.35	95.01	+12.7	2.26	107.80	85.82	86.53	87.88	94.60	109.43	95.99	90.42
United Kingdom (227)	192.76	+4.0	153.69	154.67	157.32	153.69	+4.6	4.85	191.68	152.34	153.57	155.95	152.34	200.07	165.86	162.29
USA (522)	164.51	-3.2	131.16	132.02	134.28	164.51	-3.2	3.03	163.33	129.81	130.87	132.90	163.33	171.66	160.92	152.74
Europe (793)	153.12	+3.7	122.08	122.88	124.99	124.24	+5.8	3.94	152.57	121.25	122.24	124.14	123.46	156.88	139.31	132.86
Nordic (100)	176.42	-4.0	140.66	141.57	144.00	141.39	-1.7	2.30	176.97	140.64	141.79	143.99	141.60	188.52	168.06	180.07
Pacific Basin (718)	104.36	-23.9	83.21	83.75	85.18	84.83	-22.8	1.46	102.85	81.74	82.40	83.68	83.48	141.97	94.40	132.07
Euro-Pacific (1511)	124.07	-12.4	98.92	99.55	101.26	101.08	-11.1	2.68	122.94	97.70	98.49	100.02	99.96	148.21	113.80	132.72
North America (637)	161.99	-3.4	129.16	130.01	132.25	160.66	-3.3	3.05	160.92	127.89	128.94	130.95	159.59	169.69	158.70	151.89
Europe Ex. UK (566)	129.40	+3.4	103.18	103.86	105.65	107.20	+6.6	3.26	129.12	102.62	103.47	105.08	106.72	131.77	121.81	114.84
Pacific Ex. Japan (245)	170.22	+13.5	135.72	136.62	138.96	151.47	+12.5	3.54	170.00	135.10	136.22	138.33	151.25	175.31	149.00	138.59
World Ex. US (1705)	126.14	-12.0	100.57	101.23	102.97	103.42	-10.4	2.69	125.05	99.38	100.19	101.75	102.31	149.91	116.45	134.53
World Ex. UK (2000)	132.98	-10.2	106.03	106.72	108.56	119.04	-8.9	2.58	131.88	104.80	105.66	107.30	117.93	150.58	127.21	137.48
World Ex. So. Af. (2166)	137.49	-8.7	109.62	110.34	112.23	121.69	-7.8	2.83	136.37	108.38	109.27	110.96	120.56	155.05	130.04	139.05
World Ex. Japan (1754)	160.72	-0.1	128.15	128.99	131.21	147.56	+0.9	3.36	159.88	127.06	128.11	130.10	146.62	165.40	153.20	145.37
The World Index (2227)	138.13	-8.7	110.13	110.85	112.75	122.27	-7.6	2.83	137.01	108.89	109.78	111.49	121.14	153.70	130.66	139.67

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes during the week ending 19/6/92: Additions: Winterthur (Reg.) and Zurich Insurance (Reg.). Markets closed June 19: Finland and Sweden.

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bk	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	10.5	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	10	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	● Robert Fleming & Co.	10	Provincial Bank PLC	14
Bank of Cyprus	10	Robert Fraser & Ptnrs.	10.5	● Rea Brothers	10
Bank of Ireland	10	Girobank	10	Roxburghe Bank Ltd.	11
Bank of India	10	● Guinness Mahon	10	Royal Bk of Scotland	10
Bank of Scotland	10	Habib Bank A.G. Zurich	10	● Smith & Williamson Secs.	10
Banque Belge Ltd	10	● Hambros Bank	10	Standard Chartered	10
Barclays Bank	10	Hampshire Trust Plc	13.5	TSB	10
Benchmark Bank	11	Heritable & Gen Inv Bnk.	10	Unibank plc	10
Brit Bk of Mid East	10	● Hill Samuel	10	● United Bk of Kuwait	10
● Brown Shipley	10	C. Hoare & Co.	10	Unity Trust Bank Plc	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Western Trust	10
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	W'k% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs	h	14⅞xc	1.7	60c	FeMyAuNv	4.4	1503
♥Allegheny & W		382p	+1.9	28c	–	–	–
Amdahl		328p	–0.4	10c	NvMrJeAu	31.1	–
Amer Cyanamid		28⅛	–4.6	$1.65	MrJeSeDe	4.3	–
Amer Express		12½xd	–3.6	$1.00	FeMyAuNv	31.3	1594
Amer T & T		22⅞xd	–3.6	$1.32	FeMyAuNv	27.3	1597
Ameritech		34⅛	–21.7	$3.52	FeMyAuNv	28.3	–
BankAmerica		23⅛xd	–2.1	$1.30	FeJeSeDe	19.5	1744
Bankers NY		28⅞xd	–2.4	$2.80	ApJyOcJa	27.12	1745
Bell Atlantic		23⅞	1.1	$2.56	FeMyAuNv	4.7	–
BellSouth		28	–5	$2.76	FeMyAuNv	5.4	–
♥Bethlehem Steel		8⅛xd	–5.7	–	MrJeSeDe	6.2	1821
Bowater		1124pxd	–3.1	$1.20	OcJaApJy	9.3	1884
CPC	h	23⅛	2.2	$1.28	JaApJyOc	30.3	2263
♥Cadiz Land Inc		241p	–9.4	–	–	–	–
California Engy		606p	–3	–	–	–	–
Campbell Soup		17⅞	–2.1	78c	OcJaApJy	24.12	2050
Chase Manhattan		14¼xd	–6.4	$1.20	FeMyAuNv	24.4	2109
Chrysler		11⅞xd	4.0	60c	ApJyOcDe	17.8	2135
Citicorp		11⅛xd	2.3	–	–	23.10	2141
Colgate-Palm		26½xd	–1.9	$1.06	FeMyAuNv	22.4	2184
Cont'l Bank		602p	–5.8	60c	OcMrJeSe	31.6	–
Dana		23⅛xd	–1.3	$1.60	MrJeSeDe	28.5	2306
Data General		404p	–4.9	–	–	–	–
♥Decora Inds		99p	3.1	–	–	–	–
Dial		18⅞xd	–2.9	$1.12	JaApJyOc	27.5	2778
Dun & Brad		29⅛	–2.5	$2.28	MrJeSeDe	13.2	–
Eaton		41½	–6.1	$2.20	FeMyAuNv	2.3	2410
Echlin		9⅛xd	–2.5	[illegible]	JaApJyOc	2.4	3046
FPL		18¼xd	–2.9	$2.44	MrJeSeDe	28.5	–
Fluor		21⅛xd	–7.3	[illegible]	JaApJyOc	19.8	2909
Ford Motor		24⅞	–2.3	$1.60	MrJeSeDe	29.4	2615

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	Wk% ch'ge	Div net	Dividends paid	Mid cap£m	Last xd	City line
Scot National Inc		33	-1.1	1.85	ApJyOcJa	148.8	1.6	3851
Cap		25	—	—	—	18.8	—	3862
Stepped Pf	†	148¾	0.4	5.25	Sep Mar	44.8	24.2	3862
Zero Div Pf		185½	0.3	—	—	118.5	—	3864
Warrants		4	-20.0	—	—	0.51	—	3865
Scot Value		63½	-0.8	1.6	Jan Jul	14.5	1.6	2786
Sec Alliance	†	1954	-4.3	55.8	Apr Oct	221.6	24.2	3874
Second Market	s	236	-2.9	1.5	May	236.3	6.4	3876
Sec Tst Scot		69½	-4.9	3.25	Jul Dec	218.4	11.5	3877
Select Assets		90	-2.2	0.50	Apr	21.6	24.2	5885
Eq Ind Serl		117	-2.5	4.25	JaApJeOc	20.6	6.4	4983
Eq Ind Serll		117	-2.5	4.25	JaApJeOc	24.8	6.4	5885
Shires		238xd	-2.7	18.4	ApJyOcJa	58.7	15.6	4814
11pc Cv Ln '03/04		£114½	-2.6	Q11%	Sep Mar	29.2	24.2	4812
Stan Select		72	—	1.6	Jul	18.8	—	1387
Warrants		13	-7.1	—	—	0.38	—	1379
Smaller Cos		81	-1.2	2.5	Apr Oct	12.1	24.2	3898
Warrants		16	-11.1	—	—	0.40	—	3899
Sphere Inc	N	14	3.7	3.1	MrJnSeDe	17.8	27.4	4276
Zero Div Pf		78	—	—	—	30.8	—	5227
Warrants		6¼	—	—	—	0.86	—	5678
Stratton		157	-4.3	1.7	Jul	18.8	1.8	4126
Sumit		85	—	1.25	May	3.94	9.3	4132
TR City of Lon	M	129½	-2.0	4.75	FeMyAuNv	228.9	6.4	4271
TR Euro Growth	s	88	—	1.8	Oct	28.4	16.9	4096
Ptg Sub	s	45	-2.2	1.8	Oct	1.83	16.9	—
TR Far East Inc	NF	88	-2.2	4.4	ApJyOcJa	41.8	11.5	4988
Warrants		18	-18.0	—	—	1.88	—	—
TR High Inc		188	-1.9	6.8	MrJyOcJa	22.9	9.4	2887
Sub	g	29	-3.3	1.5	Jul	0.84	17	2936
TR Pacific	s	88	-6.3	0.25	Apr	59.8	9.3	4551
TR Prop		212	-4.5	1.45	Jan Jul	58.7	15.6	4282
TR Smaller		181	-6.4	3.7	Mar Sep	235.4	10.2	4285

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Thompson Clive Inv. (Investment Trusts) and Europe Energy (Section: Oil & Gas).

Deletions: Inter-Amer. Dev. 12½pc 2003 and 9½pc 2015 (Other Fixed Interest) and [illegible] ([illegible]).

4:00 pm prices June 19

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
16¾	14¼	Zenith Nat	1.00	5.6	6	138	18	17¾	18	+¼
7½	6	Zenit Inc x	0.82	12.1		310	6¾	6½	6¾	
13¾	10¾	Zero Corp	0.40	3.6	18	226	11¼	d10¾	11¼	+¼
36	28	Zurn Ind x	0.88	3.1	31	198	28¾	28½	28¾	+¼
14½	12	Zweig Fund	1.16	9.3		215	12⅝	12½	12½	+⅛
11	9½	Zweig Totl x	1.00	10.2		1256	9¾	9⅝	9¾	+¼

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

4:00 pm prices June 19

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
A&W Brands	0.44	20	715	32¾	32	32½	+¾
ACC Corp	0.16	72	161	15	14⅛	14½	+¼
Acclaim E		110	1041	6¾	6⅛	6¾	
AcmeSteel		87	8	18½	17½	17½	−½
Aquion Cp		32	148	15	14¼	14¾	+¾
Adaptech		28	11620	27⅛	19⅝	19¼	−2
ADC Tele		29	690	35⅝	34¼	35½	
Addington		47	814	8½	8⅛	8½	+⅜
Adia Serv	0.16	16	64	12½	d11	12¼	+¼
Adobe Sys	0.32	18	8867	45¾	43½	44	−1¼
ADT Adr 1	0.32	4	7890	9⅛	8⅝	8¾	
Advance C		9	66	8⅞	8⅝	8⅞	+⅛
Adv Logic		6	60	6¾	d6¼	6¼	
Adv Polym		18	280	9⅛	8¾	9¼	+⅛
Adv Tele		18	1637	21¼	20¾	21⅛	+¼
Advanta	0.16	12	595	17¼	16½	16¼	−½
Advo Sys		16	314	16¾	d16⅛	16¼	−⅛
Affiliate		0	504	⅛	d1/32	1/16	
Affymax		22	266	17	16¼	17	+⅛
Agency Re		13	294	10	9⅝	9⅝	−⅜
AgnicoEa	0.07	7	727	4⅛	4¼	4¼	−¼
Alco ADR	1.52	11	139	43¼	42¾	42¾	
Aldus Cp		12	819	18¼	17½	18	−¼
Alex Bald	0.66	11	139	24¼	23¾	24¼	+⅜
Allegh &W		27	3	5⅝	5¼	5⅝	
Allen Org	0.48	13	z100	31	29	31½	+½
Allen Ph		14	767	18½	17¾	18¼	+¼
AlliCapil x	1.00	17	122	19¾	18¾	19⅛	+⅛
Alld Cap x	0.80	13	534	16	d14⅜	15¼	−¼
Altosta C	0.32	9	19	7	6	7	
Alta Gold		2	47	1⅛	1⅛	1⅛	

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		21	2485	19	18½	18¾	+⅛
Xoma Corp		7	3079	13½	13	13¼	+¼
Yellow Fr	0.94	21	1332	27	26½	26⅝	−¾
York Rsch		6	1423	6⅛	4⅞	5	+⅛
ZionsUtah	1.44	10	5	54	52	52¼	+¾

AMEX COMPOSITE PRICES

4:00 pm prices June 19

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pall Corp	0.36	26	2861	25½	24¼	25	+¼
Pegasus G	0.10	36	700	13⅞	13⅜	13⅞	−⅛
Perini	0.80	28	21	12⅞	12⅝	12⅝	−⅛
Pa R&IT x	1.14	16	87	14½	13⅞	14½	+⅝

MONDAY INTERVIEW

A mission to give satisfaction

Henning Schulte-Noelle, chief executive of Allianz, the German insurer, talks to **David Waller**

A deep scar runs down the left side of Mr Henning Schulte-Noelle's face, from below the earlobe to the corner of his mouth.

It does not result from an accident. More romantically, it is the result of a duel fought during his university days. It proves, in the parlance of this ritual, that Mr Schulte-Noelle is *satisfaktionsfähig* – capable of giving satisfaction.

Now, decades after his mettle was tested in this brutal manner, he is being put to the test again and the same question is being asked. Is he capable of giving satisfaction? Not, of course, at the point of a sword, but as the recently appointed chief executive of Allianz, the Munich-based insurance company which is one of Europe's most powerful financial institutions.

The question is especially poignant, as Allianz has reached a tricky point in its history. In spite of its undoubted financial might – its assets are estimated at DM400bn (£137bn) and its premium income last year was DM48bn – it faces several potentially serious problems.

First, Allianz is under attack from the Bundeskartellamt, the German federal cartel office, which is concerned about the group's domination of the domestic life assurance market and its relations with Dresdner Bank, Germany's second-largest bank, in which Allianz has a 22 per cent stake.

Second, the German insurance market faces a wave of deregulation which will increase competition and threaten Allianz's main source of profits. A series of European Community directives, aimed at freeing the insurance markets in member states, must be implemented by the summer of 1994. In Germany, the impact will be felt most severely in the profitable market for personal insurance, in particular household and motor insurance.

Third, there are doubts about the wisdom of Allianz's move into eastern Germany. It has bought Deutsche Versicherungs, the former state insurance monopoly, which is unlikely to yield profits until 1996. Before then, accumulated losses are expected to amount to about DM1.5bn, on top of the purchase price of DM71m.

Fourth, and perhaps most important, doubts remain about the company's broad strategy, which was developed by Mr Wolfgang Schieren, Mr Schulte-Noelle's predecessor.

During 20 years at the helm, Mr Schieren transformed what had been a regional player into the world's largest general insurance group. But critics say he spent too much money – about DM10bn in the 1980s – buying poor-quality businesses. They cite in particular the case of Fireman's Fund, the US insurer which was bought for $3.3bn in 1990 and made a paltry profit of $28m – *before gains on disposals* – on turnover of $2.6bn last year.

Sitting in a small, modestly furnished office deep in the headquarters of the Allianz empire – a hushed, marble-floored office complex – Mr Schulte-Noelle seems unperturbed by the challenges.

His calm manner belies long experience at the top of the German insurance industry. He has been with Allianz since 1975 and, in the decade prior to his succession last year, became one of Mr Schieren's closest aides. During that period he was part of the executive team which consolidated the company's position within Germany while pursuing aggressive expansion on the Continent and overseas.

The internationalisation of the group has led to a shift in the company's source of revenues. "At the beginning of the 1970s, when the strategy was conceived, overseas business amounted to 2 per cent of total turnover," he explains. "Now it is 48 per cent."

In pursuing this strategy, Allianz has placed little emphasis on short-term financial gains. "It is important that we earn money and pay dividends, but this is not our only priority. We are now at the size where we have more strategic options worldwide than we had 20 years ago."

Some acquisitions have nevertheless yielded quick rewards. Mr Schulte-Noelle cites the Italian insurer, Riunione Adriatica di Sicurta (RAS), bought for DM1.1bn in 1984 and Cornhill, the UK insurer, bought for DM900m in 1986. But other areas require greater patience. "There are some parts of the world where one *can't reasonably make* money in a few years. We are quite prepared to wait five, eight or even 10 years if the market is an interesting one for us in the long term."

The US is one of these markets, and Mr Schulte-Noelle is sure that Allianz was right to buy Fireman's Fund, in spite of its meagre return last year.

"*We are still convinced that* the Fireman's Fund will provide the strong presence in the US that we have been seeking. Once there is an upturn in the weak US market we expect a rapid improvement in profitability," he says.

He is equally adamant that the purchase of Deutsche Versicherungs is justifiable over the long term. "If we had decided not to go into the new Bundesländer, arguing that in five years we would still not have made a return on our investment, I'm sure that our investors would have criticised us for ignoring the potential of these new markets.

"If you imagine that the east of England had been split off – representing 25 per cent of your market – *and suddenly* there came along an opportunity to get back in there, British companies wouldn't have to think very long about it, especially if the alternative was to build up from scratch."

While supporting the strategy of rapid international expansion, *Mr Schulte-Noelle* believes that phase in the company's development is over.

The one exception is Asia: Mr Schulte-Noelle says he will make determined efforts to build up a presence in what he calls the "*growth markets* of the future". In Japan, South Korea, Taiwan, Indonesia, Vietnam and even China.

In Europe and the US, by contrast, the emphasis will be on consolidation. There will be acquisitions, but these will be designed to address specific weaknesses. In the UK, for example, he says Allianz will seek to expand its share of the life assurance market.

At home in Germany, he accepts there is likely to be a short-term reduction in profitability in 1994 and beyond. He blames the process of deregulation which will increase competition and reduce margins in the German market. But he is not unduly worried; he says the *company has taken steps* to minimise the impact of deregulation through heavy investment in training and information technology in anticipation of the changed conditions and with the aim of making the company more flexible in introducing new products".

Throughout the interview, Mr Schulte-Noelle remains *impassive. His cool demeanour* is at odds with his reputation within the company as "one of the boys" who, when head of sales, used to sit at the piano after conferences and accompany salesmen as they sang into the early hours.

He breaks into a wry smile only when a direct allusion is made to Allianz's power within *Germany. This power is at the* root of the recent challenge from the cartel office, which claims that Allianz's dominance of the life insurance market is anti-competitive and which has ordered the insurance group to cut its stake in Dresdner and reduce the two companies' co-operation in the life assurance sector. Allianz *vigorously denies* the allegations and Mr Schulte-Noelle is not alone in Germany in seeing the move as a generalised attack on Allianz and its position *in corporate Germany*.

"It probably stems from fears about us networking all over Germany," he says. "But it's nonsense to think there is anything sinister about our investment strategy.

"Look at the facts. Allianz has to invest a lot of money – we receive about DM100m to invest every day. The German stock market *is not a very* large one. If you have this amount of money to invest and there are a limited number of companies, pretty soon you build up holdings in the companies you like."

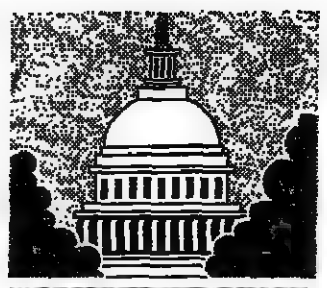
He says that Dresdner's management – indeed the management of any company in which Allianz has a stake – is free to *take steps which may go* against Allianz's interests. But as the head of Germany's most powerful investor, Mr Schulte-Noelle is unlikely to meet opposition from many German businessmen.

'There is nothing sinister in our investment strategy'

PERSONAL FILE

1942 Born in Essen. Studied law and business at Tübingen, Bonn, Cologne and Edinburgh. MBA, University of Pennsylvania (Wharton).
1974 Lawyer with Eckholdt und Westrick, Frankfurt.
1975 Joined Allianz as assistant to the head of North Rhine-Westphalia *regional office*.
1978 Head of chief executive's office, Munich.
1984 Head of the North-Rhein Westphalia region.
1988 Allianz main board, head of marketing.
Jan 1991 *Chief executive, Allianz Ille.*
Oct 1991 Chief executive, Allianz AG.

Candour at last on health care



MICHAEL PROWSE
on America

Oregon is awaiting federal approval for *a health care* experiment that seems likely to influence the provision of medical services throughout the US and perhaps the rest of the world.

Everybody in medicine knows that the steady advance of technology is making possible ever more complex and expensive treatments, especially for those approaching the end of their natural lives. Everybody knows that it is irrational to finance all the treatments that will be medically possible: at some point, other needs such as investment in education must take priority. But nobody wants to talk openly about the setting of priorities, still less mention *that evil word* "rationing".

Nobody, that is, except a set *of unusually courageous* policymakers in Oregon. The state found that the soaring cost of ineffective organ transplants was blowing holes in its budget for Medicaid, the joint *state/federal* medical scheme for the poor. With thousands of poor children lacking access to *routine care, it decided it had* to find a more rational way of allocating a limited health care budget. The result is an innovative plan that divides all health services into 17 categories of care and a total of 709 condition/treatment pairs, ranked in order of importance.

The top category includes acute fatal conditions where *treatment prevents death and* leads to full recovery. An example would be an operation for acute appendicitis. Maternity and newborn care is ranked the second most important category of treatment. The 17th and least important category includes treatments reckoned to result in minimal improvements in the quality of *life: for example* aggressive treatment for the terminal *stages of cancer or Aids.*

The legislature was presented with the list last year and with a series of costings prepared by an independent actuary. It then faced a very simple task: finding how far a *limited Medicaid budget would* stretch. The cut-off point reached was *condition/treatment* pair 587; nothing ranked less important is to be made available by the Oregon public sector. Conditions no longer treated will range from trivial ailments, such as viral sore *throats*, to surgery for some kinds of lower back pain and *infertility services.*

The scheme has been widely attacked as crude, unworkable and unjust. Critics are enraged by the planned *exclusion of some treatments* currently available under Medicaid.

The explicit rationing, however, is only part of a broader *strategy to provide universal* health care. The plan offers health care to everybody living below the federal poverty line ($964 per month for a family of three). Medicaid currently excludes many below the poverty line, all childless adults and many categories of care such as standard dental work. In a linked reform, companies *will either have to provide* insurance for employees or pay into a state scheme; Oregon is also creating a state insurance pool *for* high-risk individuals (people who have had serious illnesses are often unable to get private insurance).

Officials in Oregon point out that health care is rationed everywhere. In the US private sector *it is rationed by price* and by the onerous restrictions *written into insurance policies.* In Britain's National Health Service, rationing is even more opaque: public officials and doctors make key resource allocation decisions behind closed doors. The break*through in Oregon is the* attempt to make the rationing *open and fully accountable.*

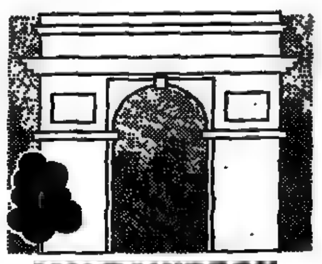
The priorities were determined by an 11-member commission consisting of four consumers, a social worker, a nurse and five doctors. They reflect the social values expressed by Oregonians in numerous public meetings and surveys and expert assessments of the clinical effectiveness of different procedures. Treatments at the bottom of *the list are those either* not widely valued or judged futile.

Several members of the commission told me they would happily join the Oregon plan themselves. They stressed that it was not just for the poor but a benchmark for all private sector plans, many of which currently offer *inferior* benefits. Public hearings and analy*sis of clinical effectiveness* had resulted in priorities that differ radically from those embodied in the US's market-driven health industry.

For example, the Oregon plan puts heavy emphasis on preventive and primary care. *It* stresses pain control and "com*fort care": unlike Medicaid*, the plan thus pays for hospice care for the terminally ill but not for high-tech interventions to prolong life by a few days. Perhaps the most exciting innovation is a plan fully to integrate the treatment of physical and mental disorders. In future mental health *will* cease to be a poor cousin because funding, *as on the physical side*, will reflect clinical results rather than prejudice or custom.

The moves afoot in Oregon are revolutionary. The state is saying that consumers, rather than physicians or bureaucrats, must take the lead in determining health care priorities. It is saying that a bundle of basic health care services can be rigorously *defined and* must be universally available. Above all, it is saying that decisions about the use of finite resources must be made openly. This is no easy task, but can anybody suggest a bet*ter way for approaching health* care reform?

Bigger may not be better



IAN DAVIDSON
on Europe

The top subject at this week's European Community summit in Lisbon, it appears, *is to be the admission of new* members. On the face of it, this is a very curious moment for the Community leaders to discuss the subject, right in the middle of the Maastricht crisis. For this is a crisis over the nature of the Community, and new members cannot possibly join unless the *nature* of the organisation is in some sense settled.

And yet there is also a sense in which the enlargement issue is a mirror image of the Maastricht problem. The treaty represents a substantial leap forward towards a more integrated *Europe*; but the admission of a large number of *new member states must mean* a Community which will be less *integrated than it is today.*

The Commission has drafted a report on the problems of enlargement, which it has submitted to the summit, and in which it says; "widening must not take place at the expense of deepening"; yet this is a logical and political contradiction of opposites. For if the effective operation of the Community, in terms of the functioning of its institutions, is to remain as integrated with 20 members in future as it is with 12 today, then *it* is clear that national political inputs to such a Com*munity must be much* more integrated than at present. Which is politically *impossible*, QED.

It would be a "tragic error", says the Commission in its report, if enlargement were to weaken the Community's decision-making capacity. Let us be clear: the weakening of decision-making would not be an avoidable error, nor a possible danger: it would be a racing certainty, on at *least* three levels.

The first level is simple arithmetic. If there are 20 gov*ernments represented* in the Council of Ministers, they cannot conceivably reach decisions as easily as 12 governments; goodness knows, it is already difficult enough for the 12. You only have to consider the time required for each minister to say his piece just once, and add the geometrical increase in the number of interpreters and translators. It is obvious that Community decision-making must grind slower and slower.

The standard solution of European integrationists is an increase in majority voting. That was the main achieve*ment of the 1986 Single Euro*pean Act, which finally blew away the Gaullist myth of a national veto, and which will lead by the end of this year to the Single European Market. And now the existing member states have agreed to a further increase in majority voting as a central element in the Maastricht Treaty.

But to argue that there must be much more majority voting in a Community of 20 than in a Community of 12 is a leap too far. It may be logical, it may be sensible, and it may even be idealistic; but it is simply not realistic. Not one of the 12 member states is demanding an immediate strengthening of majority voting in order to admit new members. Considering the passions stirred up in a number of member states by the prospective loss of sover*eignty already implied by* Maastricht, it seems unlikely that they could accept a further loss of sovereignty through another notch on the majority voting ratchet.

The question is particularly acute for the large member states: France, Germany, Italy, Britain and Spain. In the existing Community, the small countries enjoy a very large premium in the Council of Ministers, with a voting weight which is totally out of proportion to their population or their GNP. This is a historical legacy *from the days when the* three original large members (*France, Germany and Italy*) could afford this generous con*cession*, since there were only three small countries (Belgium, the Netherlands, Luxembourg).

In today's Community of 12 the large members are outnumbered seven to five. But all of the four plausible membership candidates are small (Austria, Sweden, Finland, Switzerland), *and they would tilt the balance* still further against the large countries 11 to 5.

In practice, such a Community would be dominated by small countries; it is difficult to imagine the large countries accepting political subordination. The British demand early enlargement, *precisely* because it would stop the Community dead in its tracks; but even they might object to such a position of weakness. Yet the small countries now inside the Community will not be eager to accept a reduction in their voting weights for the sake of *admitting new* members.

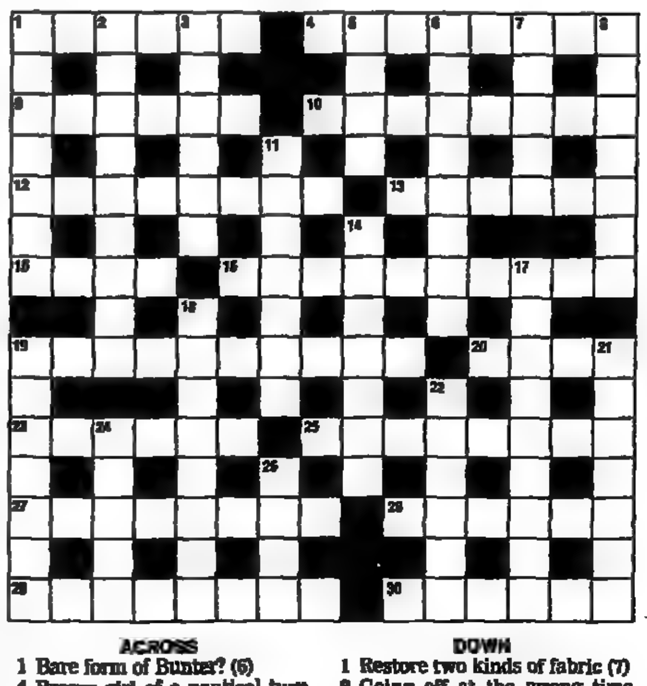
There may be grounds on which enlargement is nevertheless desirable, or at least tolerable, despite its disadvantages. Economic and monetary union will still be determined by Germany and by other large members with strong economies, like France; the rich Efta countries should cause no problem.

The one thing which will certainly disappear with enlargement is any hope of a common foreign and security policy. The Commission report says *that new members must give* "firm and precise commit*ments" on this subject, but this* is just empty piety. The Swiss will say: "Yes, yes", and mean nothing; can anyone seriously imagine a foreign policy which is commonly conceived in Lisbon, Vienna and Helsinki? The very idea is laughable.

JOTTER PAD

CROSSWORD

No.7,879 Set by DANTE



ACROSS

1 Bare form of Bunter? (6)
4 Breezy girl of a nautical turn (8)
9 Part of the engine to spin round (6)
10 *Something to read in the powder room* (8)
12 I get married and set out full of spirit (8)
13 To be consistent he must be in the middle (6)
15 Be rejected – that's bad (4)
16 Where publicans may be locked up (6,4)
19 What old lags have for sack sewing? (4,2,4)
20 Whence dates are taken in hand (4)
23 Not just dark? (6)
25 Found to be lying (8)
27 Company lacking any true organisation may benefit from one? (8)
28 Private room taken on holiday? (6)
29 They are paid by formal visitors (8)
30 Inclined to be guarded (6)

DOWN

1 Restore two kinds of fabric (7)
2 Going off at the wrong time (9)
3 Oval is prepared for play (6)
5 Terrible ruler of vain disposition (4)
6 Suit worn by the wealthy (8)
7 I'd be in Lincoln to stay (5)
8 Joint holders (7)
11 They are said to be just barren areas (7)
14 High-flown writings (3-4)
17 New hit parade not so popular in S. Africa (9)
18 You alone find it (8)
19 Dud cheque chucker-out (7)
21 Moderate and mild away from the coast (7)
22 Minister provides remedy without a word of thanks in return (6)
24 Is angry and emits smoke! (5)
26 Exploit a twist of fate (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 4.

FINANCIAL TIMES SURVEY

FRANCE

SECTION III

Monday, June 22, 1992

Since the 1950s, France's European policy has been determined by its Presidents, writes Ian Davidson. Now, for the first time, it is being put to a referendum, whose result will also be a judgment on the long reign of François Mitterrand

And now for the people

THE French debate on the Treaty of Maastricht, which comes to a climax in the next few months, will be cathartic for France, and it should give new endorsement to the development of the European Community. But whatever its outcome, it is poetic justice that this French debate on Europe is taking place under the presidency of François Mitterrand.

The debate will be cathartic because the French have long been ambivalent about Europe. From the beginning, French statesmen have always been in the forefront of the building of the Community; but other French statesmen have been among its fiercest opponents.

Ambivalence is inherent in the clash between the nationalist and centralist legacy of French institutions and traditions, compared with the pluralist liberalism of the Community model; and it is manifest in the archetypal passions which set Socialists against Communists, Gaullists against Liberals. France has been part of the European Community for over 40 years; but this deep-seated ambivalence has still not been resolved.

It has not been resolved, partly because it has never before been fully expressed. Public opinion polls have regularly shown consistently strong support for European integration; yet the paradox is that the French people have never before debated the implications of their European future as they are doing today.

By the conventions of the Fifth Republic, the French public and the French parliament are expected to leave diplomacy and foreign policy to the President of the Republic; since Europe is treated as part of foreign policy, the electorate is not normally expected to say a word.

In 1965, General de Gaulle carried his war against the Community to new heights, by walking out of the Brussels Council of Ministers; he was forced to think again after a setback in the Presidential election of December 1965; but he never offered a hint that he might need to seek parliamentary support for his belligerent policy to the Community.

Today's debate on the Maastricht Treaty, in parliament and in the media, is by common consent the most intense debate on Europe that the French have ever conducted. Indeed, it might be truer to say that it is the only intense debate on Europe they conducted in the past 35 years. One would have to go back to the Rome Treaty in 1957, or even to the abortive project for a European Defence Community in 1954, for an event of comparable intensity. By contrast, the Single European Act of 1986, which laid the foundations for the Maastricht Treaty, and which was antagonistic to everything the Gaullist Party stood for, was ratified by the then Gaullist government without a murmur and almost without discussion.

When the question is put, the French are likely to give a clear Yes to Maastricht. This is what the opinion polls have been saying, and this is what the leaders of most of the mainstream political parties will be campaigning for. The Communists, the extreme right-wing National Front, and the Greens will call for a No vote; but they do not command a majority in the country. By contrast, the Socialists, the Centrists and the centre-right UDF group will all call for a Yes; only the Gaullist party is still deeply split on Europe, but at the end of the day its leadership will probably call for a Yes.

It is poetic justice that this referendum is taking place towards the end of the Presidency of François Mitterrand, because his deep commitment to European integration has been the most consistent theme in his long political career.

Doubts have sometimes been expressed whether Mr Mitterrand is really a socialist, and if so in what sense; but his credentials as a committed pro-European are virtually never questioned, even by his adversaries; and when in the past, he has had to choose between "socialism" and Europe, as in the spring of 1983, he has always chosen Europe.

But this time, it is the French people who are being asked if they will choose Europe. If they do, they will confirm François Mitterrand's claim to a place in modern European history as one of the driving forces giving new impetus to the process of integration. France's Maastricht referendum will obviously be an inherently important turning-point for the future of European integration; it will also be a suitably elevated test of Mitterrand's reputation and political legacy.

Because the political and international stakes are so high Maastricht is already starting to raise the level of political debate in France, as well as the calibre of President Mitterrand's public engagement. All politicians are conscious that the outcome of the referendum will be critically important for France and for Europe; they also know that the issues raised in this debate could have a decisive impact on the parliamentary election in March next year, as well as on the next Presidential election two years later.

Most of the past year saw the government gripped in the doldrums of despair and disintegration. Once the Gulf War was out of the way, nothing went right for the regime. The President seemed to have lost his touch (but not his obstinacy) when he appointed Mrs Edith Cresson to the prime ministership; more and more members of the Socialist Party were tarnished by charges of financial corruption; the President and his Party were increasingly at loggerheads. The Party seemed to be sliding helplessly towards an annihilating defeat in the next general election; a treacherous chorus of voices began saying that the Party could only survive intact if the President resigned early.

Even the President seemed at one stage to be aware that the domestic situation could become so unfavourable that he might have to consider early retirement. But that mood has now passed. The Maastricht referendum will enable President Mitterrand to face the electorate on an issue of high policy with a powerful and ambitious case to argue. If he secures a large Yes majority, the verdict may well boost his personal popularity, still at a desperately low ebb, as well as the election chances of his party.

Conservative advocates of a Yes vote are determined to prevent the referendum from being turned into a personal plebiscite for President Mitterrand; they claim their decision to vote with President Mitterrand on Maastricht still leaves them entirely free to vote against him on other issues. But they know they cannot be sure of separating out the question from the questioner; they are compelled to campaign actively for Maastricht, just in case the electorate should vote personally against President Mitterrand.

A year ago, when the government's rating was sinking to an all-time low, President Mitterrand promised a reform of the constitution, including a shortening of the seven-year term of the presidency. This constitutional project now seems to have faded from view. But it would be a pity if the growing excitement of the Maastricht controversy were to shut out the more modest case for a re-examination of the working of the constitution.

In the depths of its political doldrums last year, some commentators suggested that France was afflicted by a deep sickness of the spirit. Of course, France was not sick; on the contrary, any casual observation would show that France is as well governed as its neighbours, and its economy better managed. On the other hand, it does seem that the French are increasingly sick of their political class.

One factor is revulsion at repeated revelations of illicit party finance arrangements, mostly in the Socialist Party, and some of which have also involved personal corruption.

A more general explanation, however, of which specific corruption is only one manifestation, lies in the constitution of

□ Continued on Page 2

An elderly flower seller in Nice: at long last, the citizens of France will have their say on Europe

IN THIS SURVEY

France aspires to a key role in the refashioning of Europe, writes **Ian Davidson**

Platform for historic ambitions

EVER SINCE World War Two the French have been at odds with the Americans. Throughout the Cold War they were at odds with them over the confrontation with the Soviet Union. Today the Cold War is over, but the French are again at odds with the Americans, this time over the architecture of Western Europe. The antagonists are the same but the difference is that now the French have picked an argument where the odds are stacked in their favour.

Picking a foreign policy argument has long been a national addiction of the French. They have a romantic view that history gives them a right and a vocation to exercise their influence on the rest of the world. France, they say, is a nuclear power. France is a permanent member of the United Nations Security Council. France, in short, is an important country.

For most of the post-war era, this extravagant effort of national self-assertion was at variance with practical reality, in terms both of France's own strength and of the readiness of the rest of the world to be impressed. Nevertheless, France was able to take advantage of the lethal menace of the Soviet Union, on the one side, and the solidity of all the other members of the Atlantic Alliance, on the other, to claim for herself a unique status of moral independence, as a gratuitous defiance of the domination of the two super-powers. It was a conspicuous gesture of protest at the leadership of the Americans, but the French could not change the the essential characteristics of the international constellation, and their example did not make converts.

On the contrary, France's claim to stand aside from the rest of the alliance merely caused constant friction. At moments of supreme emergency, from the Cuba crisis of 1962 to the Euro-missile crisis of 1983, France lined up loyally with the Americans. As soon as the tensions subsided, France once more reclaimed the right to a role of national individuality, but could not make any dent on the reality of American leadership.

What has dented American leadership is the earthquake of events in Eastern Europe which has followed the collapse of the Soviet system. But this earthquake, and the trauma of the Gulf War, have also deeply shaken many of the most basic assumptions of the previous foreign policy, not just of France but of all Western countries.

The President with Queen Elizabeth at the Elysée this month: a sense of national importance

In addition, the French have had the special problem of coming to terms with the fact that their previous ambitions were themselves often based on self-deception.

The first of these self-deceptions was the deeply-rooted idea that France has a special role and can wield a special influence in the Arab world. In Lebanon, the French persuaded themselves that they had a civilising mission to guarantee the dominance of the Christian community; with Iraq the French believed they had forged a strategic alliance with a friendly state which would play a key role in the stability of the Gulf. The slow realisation that Lebanon is a Syrian, and not a French fiefdom, and the violent revelation that France had no influence whatever on Iraqi expansionism, have both been painful awakenings.

The fall of the Berlin Wall rudely shattered France's illusion of political superiority over Germany

The second self-deception was the idea that France would always have special political strengths with which to dominate the Germans. France's former enemy was economically more powerful, but it was divided and politically enfeebled, whereas France was a nuclear power, a notional victor from World War Two, and the proud possessor of a permanent seat on the UN Security Council.

This illusion of political superiority was rudely shattered by the fall of the Berlin Wall, the end of the Cold War, and the unification of the two Germanies. All at once, Germany regained its full sovereignty and France lost its claim to the special status of a former conquering power. All at once, it became more difficult to define the advantages conferred on France by the possession of nuclear weapons.

The third illusion is that France is a strong military power in conventional terms. The constant modernisation of France's nuclear triad was only achieved at the expense of its conventional forces. These had appeared entirely adequate for minor adventures in former colonies in Africa; they were revealed to be humiliatingly inadequate for the war in the Gulf. Yet, if the end of the Cold War down-graded the value of a strategic nuclear arsenal, it was likely to place a larger premium on effective conventional forces.

French responses to the whirlwind of recent history have often seemed petulant, displaced or anachronistic. After the Iraqi invasion of Kuwait, President Mitterrand continued to proliferate diplomatic initiatives, even though there appeared no reason to expect a diplomatic solution. After the fall of the Berlin Wall, President Mitterrand appeared to hope that German unification could be delayed, and manifestly did not welcome its implications when he could not prevent it.

So long as there was any chance that President Mikhail Gorbachev could retain his ascendancy over the Soviet Union, President Mitterrand was less than welcoming to President Boris Yeltsin. Yet, when the conspirators mounted their abortive coup against Mr Gorbachev, President Mitterrand appeared altogether too ready to accept it as a *fait accompli*.

In view of these fairly spectacular foreign policy fluffs, some people claimed that President Mitterrand had lost his once-famed power of political judgment. Such a sweeping verdict is almost certainly misplaced, but his reflexes may well have been betrayed by his age.

In the case of German unification, the key fact was generational: few Frenchmen of the age of François Mitterrand would instinctively welcome the full restoration of German sovereignty, even though for conscientious political reasons he had spent all of his presidency forging close political links with Germany. In the case of the abortive Moscow coup, President Mitterrand's essential judgment does not seem significantly different from that of other Western leaders. The key distinction was in the temperature of his commentary: in public he chose to comment on the coup in cold terms, whereas others adopted a vocabulary of heated condemnation. His was the choice of an old man.

In contrast with the instability of events and the uncertainty of French responses, the single most constant theme in François Mitterrand's foreign policy has been the commitment to the development of European integration, and it has proved a constant stabiliser. France has always been in the forefront of the debate over the future of Community development, but in the 1960s and 1970s the French attitude to Europe was often at best ambiguous. Under the presidency of President Mitterrand, however, almost all the old ambivalence has been cast aside, and in tandem with Germany, France has become the power-house of a new drive for European integration.

Their joint drive gathered extra momentum in response to the fall of the Berlin Wall and the unification of Germany. In 1989, the Community was already launched in the direction of Economic and Monetary Union. In 1990, France (and Germany) demanded a further strengthening of the integration process, with a parallel negotiation on Political Union; by the end of 1991 these two negotiations culminated in the Maastricht Treaty of European Union.

If the political ambitions of this treaty are fulfilled, it will endow the Community with far-reaching ambitions for a common foreign and security policy, leading one day perhaps to a common defence policy. The Community would thus itself become a world player on the international stage, in competition with the other major powers. But the pursuit of these long-term ambitions for Europe is a direct challenge to the established hierarchy of power in the world, and it is setting France on a collision course with its more traditionally-minded allies, starting with the US.

So far the conflict between the two sides has been uncertain and ambiguous. All the Western allies, including the French, have continued to protest that Nato's role, and the American military presence in Europe, remain as essential as ever. Yet, by definition, the disintegration of the Soviet enemy places an unavoidable question mark over the future purpose of the Western alliance.

That question mark is only underlined when the Americans seek to invent new peace-keeping roles for Nato which are not provided for in the Atlantic Treaty, in a transparent effort to prop up its uncertain credibility. But these declarations of allegiance to Nato have not dissuaded the French (and the Germans) from pressing ahead with plans to endow Europe with the power of political, and perhaps one day military, action.

The drive for a more integrated Europe will ultimately clash with the French claim for a separate foreign policy

In the wake of the Gulf War the countries of Western Europe proposed to strengthen their military cooperation in the long-dormant Western European Union; the US State Department immediately issued an intemperate protest at what it saw as a direct challenge to the role of Nato. Yet the new Nato strategy agreed at the Rome summit in November 1991 included approving references to the role of specifically European forces. This year, France and Germany announced the setting up of a joint corps as the kernel of a future European army. American officials again protested that the new unit would weaken Nato, and could only be employed with Nato's permission.

The paradox of these American protests is that the French drive for a more integrated Europe must eventually lead them to abandon their traditional claim to a separate and independent defence policy. As it is, the French have endorsed the merit of integrated military forces, both in principle at the Nato summit, and in practice in the project for a Franco-German corps. The long-term objective of a European defence policy clearly implies a French readiness to subordinate their national defence to the common European interest.

What the French have not endorsed, of course, is the general principle that Europe's defence should be subordinated to the judgment and the interests of America. This issue is likely to sustain the friction between France and America, at least until the US accepts the idea that Europe's interests are separate and may well be different.

The economy is fighting its way out of a tight corner

The pains of recovery

AFTER A YEAR of precipitous slowdown in the rate of growth, the French economy is starting to show signs of recovery. The government is now forecasting an increase of 2 per cent this year. But just as the slowdown was much more severe than anyone had predicted, so the recovery promises to be painfully modest.

The government repeatedly declares its urgent desire for a faster rate of growth to arrest and, if possible, reverse the the creeping rise in unemployment, which has now passed the 10 per cent mark. But the existing constraints of its long-standing anti-inflation policy, reinforced by the future imperatives of the European programme for Economic and Monetary Union, have deprived it of virtually all margin of manoeuvre for influencing the speed of the recovery.

The downside of the slow recovery is the prospect that unemployment may go on rising for the rest of this year. But there are two important compensating factors: French inflation remains more firmly under control than in most of the country's main trading partners; and as a result of the accompanying improvement in French competitiveness, the trade balance has started to show a fairly spectacular improvement.

In the end, the recession proved fatal for the premiership of Mrs Edith Cresson. No sooner was she appointed, in May 1991, than her popularity and that of her government began an uninterrupted decline which eventually reached catastrophic depths. After the humiliating popular rebuff of the regional elections of March this year, President Mitterrand was forced to replace her by Mr Pierre Bérégovoy, whose popular standing has improved with every passing week.

No doubt Mrs Cresson suffered heavily from personal errors of style and judgment. But hindsight also suggests that the main reason for her fall from power was the unexpectedly steep recession, which happened to coincide with the period of her premiership. In December 1990 the Organisation for Economic Co-operation and Development was forecasting a 2.3 per cent growth rate for 1991; by the middle of 1991 this prediction had been scaled back to 1.4 per cent; the final out-turn seems to have been no more than 1.2 per cent.

Neither in absolute nor in relative terms was this a particularly deep recession. It was certainly less severe than the one in the UK. But it was much more difficult than the French people had been led to expect. Mr Bérégovoy is benefiting partly because of his contrast with the personality of Mrs Cresson, but also because his appointment has coincided with the first signs of economic recovery.

One of the first consequences of the slowdown has been a sharp increase in the size of the budget deficit. Up to and including 1990, the Socialist government had followed the pattern set by its conservative predecessor, of steadily cutting back this deficit by around FFr10bn each year. But the passive effect of lower tax revenues last year swelled the deficit from the planned level of FFr81bn to FFr132bn, and the government is planning this year for a further small absolute increase to FFr135bn (though the rise will be less than the rate of inflation).

The government's acquiescence in an easing of budgetary policy has come in for criticism from the conservative opposition on the grounds that the deficit has swelled from 1.4 per cent of GDP in 1990 to 1.9 per cent in 1991. Yet the new higher borrowing requirement is still rather modest compared with the deficits of many other industrialised countries, such as the UK with 4.5 per cent of GDP or the European Community average of 4.3 per cent. Moreover, it remains inside the 2 per cent ceiling set for the completion of EMU and should start to decline again this year.

In any case, France is continuing to set new benchmarks with the success of its fight against inflation. Last year the rate was reduced to 3.1 per cent, and for the first time since the early 1970s slipped below Germany's. The gap has continued to widen as a result of the impact of German unification, and is now more than a full percentage point. This year, despite the emerging recovery, the government is forecasting a further decline in inflation to 2.8 per cent, a rate which it expects to maintain in 1993 as well.

The fight against inflation, coupled with the success of the strong franc strategy in the context of the European Monetary System, has also started to pay impressive dividends in the foreign trade balance. In each of the first four months of this year France has recorded a surplus. The monthly record in April of FFr7.8bn brings the cumulative total surplus this year to FFr12.8bn, compared with a deficit of FFr16.5bn in the same period last year.

There is no doubt exporters have enjoyed a transient advantage from the effects of German unification. But the government claims a solid improvement in competitivity which has convincingly overcome the traditional weakness of French industry in international markets.

The black spot in the French economy, and the central anxiety for the government, remains unemployment, which in April grew by 1.4 per cent or over 39,000 to a new peak of 2,897,700. The economic recovery is evidently too slow to create enough new jobs for the increasing numbers of young people on the labour market, while at the same time lay-offs are still adding to the unemployment queues.

One worrying feature is that unemployment is growing faster than average among men of prime working age, between 25 and 49. Another is that nearly a third of the total (917,000) have been out of work for over a year. The new prime minister has promised that every one of these long-term unemployed will be offered a job, training or community service by the autumn. And the government has embarked on a partial privatisation programme to help fund this programme.

As the economic recovery gathers momentum, France should be well placed to take advantage of it with its low inflation, stable currency and competitive industry. It is an achievement which has been often praised by independent economists, starting with the OECD. It will be an enviable start for whoever wins the general elections in March 1993.

Ian Davidson

Jean Peyrelevade

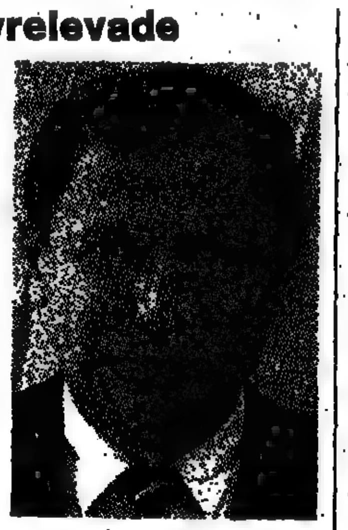
THERE is a story that when Mr Jean Peyrelevade swapped his lucrative post as head of Banque Stern in Paris for the chairmanship of Union des Assurances de Paris he swallowed a salary cut of 80 per cent.

It was almost certainly worthwhile. UAP is the biggest of the big French insurers and one of the most powerful shareholders in French industry. As chairman, Mr Peyrelevade, the son of a Marseilles schoolteacher, holds one of the most powerful posts in French finance.

He owes his position both to his brains and to his political contacts.

Mr Pierre Mauroy, an old friend, made him assistant director of his private office as soon as he became prime minister. Mr Peyrelevade is the archetype of that peculiarly French phenomenon — the cerebral socialist financier.

After the premier's office came the chair of Compagnie de Suez, one of France's most powerful industrial and financial groups, followed by a



lucrative stint in the private sector, as chairman of Banque Stern, while the socialists were out of power between 1986 and 1988.

When the socialists returned, so did Mr Peyrelevade to rule the roost over French finance from UAP's opulent offices overlooking Place Vendôme.

A.R.

A timely debate

☐ Continued from Page 1

the Fifth Republic, which gives too much power to the ruling party and far too much to the president, who is wholly unaccountable.

This is a system where the tentacles of patronage and influence reach into every crevice of society, where the party of government is always tempted to abuse its power, and which in the end gives off a reek of pervasive corruption. Critics accuse the Mitterrand presidency of giving way to the self-important pretensions of a monarchical *fin de règne*, and some even insinuate that President Mitterrand has been continuously extending a politically decadent grasp while losing his intellectual grip.

These added innuendoes are over the top and therefore miss the point. President Mitterrand is by now an elderly man. But those who under-estimated his strategic skills in the past often had cause to regret it, and the Maastricht process is likely to show that his faculties are as sharp as they have ever been.

The central issue in this closing phase of President Mitterrand's presidency is not whether his successor will have noticeably shrewder judgment but whether the system gives him an unbalanced share of power.

Politicians' fortunes are being buffeted by wild swings in public opinion, writes **Ian Davidson**

Support falters for main parties

IN 18 short months, the mood of the French government has swung wildly from triumph to despair and half way back again. As battle raged in the Gulf War, President Mitterrand and his then prime minister, Mr Michel Rocard, were both at the peak of their popularity. But by last autumn the President and his new prime minister, Mrs Edith Cresson, were both sinking to record depths in the popularity polls.

At that moment the regime seemed in a state of terminal depression and even disintegration. The Socialist Party was apparently doomed to suffer a crushing defeat at the next general elections; the party was almost openly at war with the President; it even seemed uncertain whether he could survive to the end of his term.

Today the mood has swung round again. Mrs Cresson has been replaced by Mr Pierre Bérégovoy, and the change of cast is working wonders for the image of the government and the popularity of the President; the polls are once more giving a little buoyancy, the President is back in battling form, and no-one now suggests that he might be forced into early retirement.

These contrasts of mood are so volatile that one might be tempted to discount them as manifestations of a Latin addiction to melodrama. Yet the dispassionate facts are equally volatile. In the first round of the 1988 general elections, the Socialist Party scored nearly 35 per cent of the popular vote. This was not quite enough to lead to an absolute majority in the National Assembly, but it was enough to make the PS the largest single party in France by a wide margin.

After the change of prime minister, the president is back on form and talk of his retirement has ceased

Less than four years on, in the regional elections of March this year, the Socialist vote had dropped by almost half to a shrivelled 18.3 per cent. However, this stunning collapse in the Socialist vote in March did not do the traditional conservative parties any good. *In the* first round of the general election in 1988, the Gaullists and the centre-right UDF umbrella grouping together scored just over 38 per cent; in March this year their combined vote fell to 33 per cent.

In other words, the three main-line parties of government did so badly that they could only score just over 51 per cent of the vote between them. Their collective set-back was reflected in a mushrooming of voter support for a wide *gamut of protest parties: the* big break-through was made by the two ecological parties which scored 13.9 per cent between them; but the extreme right-wing National Front also moved ahead with 13.9 per cent.

Polling evidence suggests several reasons why the mainstream political parties lost support in the March elections. To many Frenchmen the political class appears remote, elitist and indifferent to the concerns of ordinary people. In addition there is a strong whiff of corruption hanging over the political parties, especially but not only the Socialist Party, as a result of repeated revelations of illicit party financing.

To many Frenchmen, the political class seems remote, elite and indifferent to ordinary folks' concerns

But perhaps the strongest common reason for popular alienation is that the Socialist Party and the conservative opposition parties all present a wearying spectacle of constant jockeying for position between rival contenders for leadership. The right wing has long been *disfigured by the feuding* between former President Valéry Giscard d'Estaing of the UDF and former prime minister Jacques Chirac of the Gaullists, both of whom are determined to stand for the Presidency in 1995. But the image of the Socialist Party was also seriously damaged at its Congress in Rennes in 1990, by the open power battle which broke out between warring factions.

This Socialist power battle, which was waged between three main factions, was this year fought to a realignment which effectively transfers control of the Party to Mr Laurent Fabius, leader of a breakaway faction mustering around 30 per cent of the party activists. In the past Mr Fabius had made *several previous* attempts to take over the party leadership, but each time he was blocked by a tacit alliance between the factions of Mr Lionel Jospin, representing the traditional party leadership, and Mr Michel Rocard, the former prime minister.

Premier Pierre Bérégovoy: an instant success with voters

Laurent Fabius: winner of the Socialists' power battle

In January this year, however, Mr Rocard switched sides and Mr Fabius won the nomination as first secretary of the Socialist Party. As his side of the bargain, Mr Fabius tacitly endorsed Mr Rocard as the Socialist Party's "virtual" can*didate in the next Presidential* elections. Such an endorsement is a gesture, not a commitment; but it should lead to a formal adoption of Mr Rocard's candidacy by the Party, which would then be almost irreversible.

The full extent of Mr Fabius' victory only gradually became obvious. When President Mitterrand dismissed Mrs Cresson as prime minister in April, he replaced her by Mr Bérégovoy, a leading member of the Fabius faction, while Mr Jospin was excluded from the govern*ment altogether. By the time of* the next general elections in March next year, therefore, the Socialist Party should look a good deal more disciplined, if not united, than it has in the past couple of years.

The conservative parties have in the past been seriously weakened by their divisions, and Mr Valéry Giscard d'Estaing and Mr Jacques Chirac have both paid lip service to the necessity of uniting their forces. In principle they are now committed to the idea of holding a primary selection process, to decide which of them should be the conservative candidate in the next Presidential election. But their solemn assurances have never sounded fully reliable and will be severely tested by their pro*found policy disagreements* over the Maastricht Treaty in the debate looming ahead.

In the wake of the March regional elections, *Le Monde* ran an ironic cartoon which showed a ceremonial majordomo addressing the crowd on the steps of the presidential palace: "Attention! Stand aside!", he was saying. "The President will now bounce back!"

At the time, the fortunes of the government and the Socialist Party had sunk so low that it *seemed inconceivable that* the President could ever "bounce back". Today, the balance of forces between government and opposition is again more evenly matched. The odds remain that the Socialists will be defeated in the general elections *of March 1993,* possibly by a wide margin; but it is also conceivable that the political struggle over Maastricht will so divide the conservative parties as to weaken their electoral chances. The one thing we know for certain is that President Mitterrand is never beaten until the battle is over, and the battle is not over yet.

FINANCIAL MARKETS

Paris reaps reward for boldness

THROUGHOUT this spring a string of foreign financial groups – Morgan Stanley of the US, the UK's Kleinwort Benson and Nomura of Japan – have expanded their activities in Paris.

From a glance at the latest *sets of figures from the exist*ing players on the French securities markets, one could be forgiven for wondering why. All but a handful of the established Paris brokers lost money last year. Even the few profitable firms came under intense financial pressure. The latest figures from the Association Française des Sociétés de la Bourse show that the 55 French stockbrokers made combined losses of FFr600m in 1991.

The reasons for the losses are obvious. The French stock market is over-crowded, with too many firms chasing too little business in an illiquid market. This problem is compounded by the continuing existence of a number of small, heavily *loss-making* brokers, which are propped up by their owners, often the big French banks, thereby destabilising the rest of the industry. *Finally, as if to add insult to* injury, despite the radical reforms of the 1980s, Paris has never succeeded in stemming the loss of business to its chief competitor, London.

The socialists pursued such a rigorous *economic policy that it* won over even the most conservative financiers

Why then, have apparently rational companies such as Morgan, Kleinwort and Nomura decided to invest in the lacklustre Paris market? The answer is that they, like the established players, are confident that the future will be far brighter when the second wave of France's financial reforms has taken effect.

The first wave of reforms in the mid to late 1980s revolutionised the French markets as Paris followed London's lead by deregulating its financial sector. The *labyrinth of closed markets, restrictive practises* and other anomalies that had for decades dominated French finance was swept away.

At the end of it all, France could claim to lead the world in terms of technology and to have opened up its markets for the 1990s. *But Paris still had* its problems. The market was illiquid, mainly because of the severe shortage of both investment and equity in France, a country where the state still controls the pension system and huge chunks of industry.

Moreover, some of the old anomalies, such as the Bourse tax on share transactions and anachronistic takeover laws, had survived. The attempts of Paris to establish itself as an international trading centre were also impeded by the strict rules on disclosure, which made it easier for dealers to execute "block" trades in large volumes of shares in London.

Fortunately for the French financial community the socialist government has recognised these problems. Mr Pierre Bérégovoy, the prime minister who, as finance minister, pursued so rigorous an economic policy that he won over even the most conservative of financiers, is seen as the *chief proponent* of reform. Indeed, one of the ironies of French politics, at least to Anglo-Saxon eyes, is that the main opponent to financial deregulation has been not left-wing politicians but the Patronat, the lobbying body for big business.

The second wave of financial reform is now underway. The first candidate for change was takeover law, which recently came under scrutiny during the controversial bids for the Au Printemps stores group and Perrier mineral water. The government has already abolished one anachronism in this area – the right to make *partial bids for two thirds of a* company.

Meanwhile the stock market authorities are considering proposals to make block trading easier in Paris. There are also growing lobbies both to abolish Bourse tax – a move that *Mr Bérégovoy* is believed to support – and to modernise the regulatory structure of the Paris markets, possibly by merging the two watchdogs, the Commission des Opérations de Bourse and the Conseil des Bourses de Valeurs.

Further, the government is tackling the longer term issue of liquidity. The proposed reform of the French pension system, which will almost certainly involve encouraging the use of *private pensions as a* complement to the existing *state system,* should provide a sorely needed source of new investment by creating the sort of private sector funds that are already such important components of the US and UK markets.

Looking into the future it is possible to paint an optimistic scenario whereby the private pension funds also instill more discipline into the French markets by challenging the power of the big banks and insurers, which now dominate the investment scene, and by insisting on higher standards of reporting from companies.

At the same time the government's policy of partial privatisation – the sale of minority stakes in state-controlled companies – should help to address the equity problem. Partial privatisation started earlier this year with the sale of a stake in the Elf Aquitaine energy group. It will continue with the forthcoming Total oil group issue and future sales of stakes in the big insurers.

The pension and privatisation programmes seem set to continue whichever party wins next year's National Assembly elections. The socialists, who have so far been impeded in their pension plans by trade union opposition, are expected to wait until then to accelerate their reforms. If the conservatives come to power in France, both programmes should be stepped up even further.

The continuing changes have encouraged leading US, Japanese and UK finance houses to expand in France

It would be foolish to exaggerate the likely impact of all the various financial reforms. The new takeover laws are little more than a mopping-up exercise and noone expects the new block trading system to achieve anything more than simply stopping the loss of any more business to London.

Similarly, it will take years, possibly decades, for the full effects of pension reform to emerge, given the complex logistics of the exercise.

Moreover, the tradition of state ownership is so strong in France that, even if the right returns to power, it is difficult to envisage the state not continuing to control a large tranche of industry.

But the important thing is that changes are indeed underway. It is this which has encouraged the likes of Morgan, Kleinwort and Nomura to expand in Paris and which has helped the established houses *to lick their wounds* and swallow last year's losses.

Alice Rawsthorn

Industrial policy in the melting pot

Revising the borders

OVER the past decade, President François Mitterrand has drawn back many of the frontiers of state industry to allow free market forces a controlled entry into this previously protected domain.

The secret of understanding French industry policy is to know where those boundaries lie at a given moment and it is not easy. "There are no absolute rules to determine what is a strategic industry... It is true that what is strategic or not, or what requires intervention or not, does evolve," said Mr Dominique Strauss-Kahn, industry minister, in a recent interview.

Cars, papermaking and machine tools were, for example, among the sectors thought strategically vital in the mid 1980s. Now the Paris government feels those businesses should compete without its help and focuses its industrial interest instead on electronics, semiconductors, biotechnology and the environment. The state's business, says Mr Strauss-Kahn, is to lend a helping hand in projects in such strategic sectors, too long-term for private business to handle alone.

Defence equipment and vital supplies, such as oil, are also treated as strategic and therefore subject to state control, though here the government is loosening its grip slightly. By contrast, it is increasing control over air transport, through Air France's takeover in 1990 of UTA, a private airline.

To the opposition, all this looks like a complete muddle. Mr Jacques Chirac, leader of the Gaullist party, recently complained of "the confusion of government policy on privatisation, which wavers constantly between recognising the freedom of companies and maintaining the control of the state".

Yet there is clear evidence that the government is allowing the public sector more freedom. It is, for example, increasingly leaving the big decisions in state industry to professional managers and allowing them to strike alliances with private foreign partners.

True, there was a quick swerve towards interventionism during the 11-month government of Mrs Edith Cresson, the former prime minister, who resigned in April. This made a lot of noise, but little practical impact. Her successor, Mr Pierre Bérégovoy, has taken a more hands-off approach, balanced by Mr Strauss-Kahn's vigilant attention to the need to keep up to the mark in strategic sectors.

Examples of these new freedoms are the ground-breaking alliance between Renault, once a sacred symbol of French state industry, and Volvo, the Swedish car maker; the stakes taken in Bull, the state-owned computer group, by NEC of Japan and IBM of the US; and the share swap being negotiated between Banque Nationale de Paris (BNP) and Dresdner Bank of Germany.

The government is also showing that it does not want to disrupt proven professional management in the public sector in the way in which it is now settling down to review the 45 top jobs in state industry, whose three-year mandates come to an end in the next few months. Mr Bérégovoy plans to make as few changes as possible.

Until last spring, the tone of French industry policy was set by Mr Mitterrand's 1988 election pledge that there should be neither privatisations nor nationalisations, known as the "ni ni" policy. The aim was to induce stability after the merry-go-round of nationalisations of the first Socialist government and the privatisations under the 1986-1988 Gaullist regime.

In the event, the state-sector's demand for fresh capital proved so strong that the "ni ni" rule became unworkable. This was recognised officially when the Renault-Volvo alliance was given the go-ahead in early 1990, allowing Volvo to take a 20 per cent stake in Renault and to contribute to a capital increase.

In May last year, the government finally buried "ni ni" by issuing a decree allowing private companies to take minority stakes in French state-controlled businesses, so long as they contributed fresh capital and entered into an industrial, commercial or financial co-operation accord. That freedom was later extended to the state insurers, which had been left out of the decree because they were governed by their own separate law.

The state has switched is strategic interests from cars, paper and robots to electronics, biotechnology and the environment

Last September, Mr Mitterrand gave his personal seal to the end of his old policy, by telling the nation that he now supported partial privatisations so long as the cash from share sales was used to fund industrial investments or jobs.

Mr Bérégovoy's arrival gave fresh impetus to all this, as well as marking a practical step back from interventionism. One of his first actions was to tone down an ambitious plan to restructure the electronics industry, hatched by Mrs Cresson's government, in which the Thomson Consumer Electronics (TCE) audio and video equipment group was to merge with the industrial arm of the CEA atomic energy authority. It now looks as if CEA-Industrie will simply take a minority stake in TCE.

The Gaullists, however, complain that Mr Bérégovoy's move to a more liberal industry policy is very slight. The real reason for his privatisations is to raise cash for the government rather than to give state industry more freedom, they complain.

The government fully accepts that most of the partial privatisations so far, except for Renault, have been to raise money to fund the campaign against unemployment, its top priority in domestic politics, rather than to raise investment funds for the companies. Ironically, the Socialists also gave job protection as one of the reasons for their nationalisation programme in the early 1980s.

Officials say the state hopes to raise FFr15bn to FFr20bn this year. It looks as if they will meet that target easily. To date, the government has pulled in FFr2bn from last November's flotation of Crédit Local de France, a local authority bank, and FFr2bn from the sale of a small stake in Elf Aquitaine in March. Up to FFr3bn is to come from the sale of a stake in Caisse Nationale de Prévoyance, a life insurer, and another FFr8bn to FFr10bn is expected to come from the sale of a large stake in Total, the oil group.

The Total case is especially interesting, since the government is planning to reduce the public sector's stake from 34 per cent to 15 per cent, and the state's direct voting rights to a mere 5 per cent. This is a much greater relaxation of control than most people had believed possible in a sensitive sector such as oil, though the government is to keep the crucial rights to nominate the chairman and to vet Total's international agreements.

It is wrong to suggest that state-owned companies have been completely deprived of fresh investment, even if they do continue to be undercapitalised by comparison with privately-owned foreign competitors. The state has bailed out the neediest cases, such as Bull, Thomson and Air France, from its own budget.

Its ability to do more has been limited by the European Commission's rigorous application of EC rules against state aid, as well as by the government's own budget deficit. So ways have been found to fund state companies without having to dip directly into the public purse, by using state owned banks.

Crédit Lyonnais, for example, pumped FFr2.5bn of fresh share capital into Usinor Sacilor last year after having bought a stake in Rhône-Poulenc, the state-owned chemicals group, in the previous year, and is discussing a possible FFr1bn investment in Aérospatiale, the state-owned aircraft and missiles group. Crédit Lyonnais' larger competitor, BNP, paid FFr2bn for Air France convertible bonds.

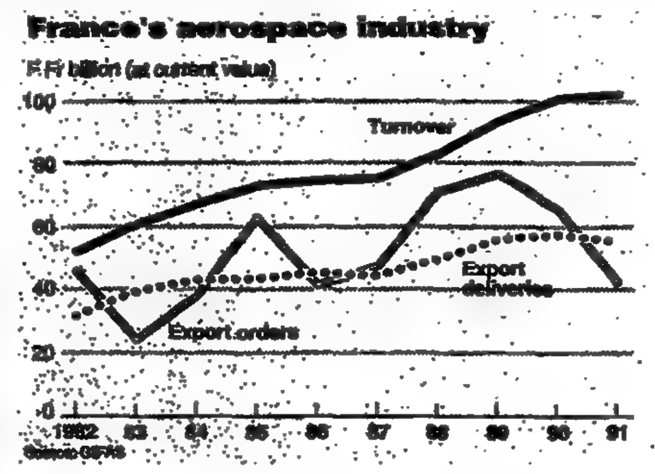
Crédit Lyonnais was happy to oblige and says it would have made these investments in any case on straight commercial grounds. BNP, by contrast, fought successfully to get better terms out of Air France. The state banks are not necessarily a pushover – a sign that independent management in the state sector will not always be easy for the government to digest.

William Dawkins

Aerospace swallows its national pride

Marriages have been arranged

France's aerospace industry



THE FRENCH aerospace industry, the third-largest in the western world, has been stepping up the search for foreign partners in response to shrinking national defence budgets and the continued downturn in the civil aircraft market.

Aérospatiale, the state-owned aircraft and missiles group, led the first real rationalisation of the hard-pressed western helicopter industry, through a merger of its helicopter business with that of Deutsche Aerospace (Dasa) to form Eurocopter. The new group, formed in January and controlled by Aérospatiale, is the world's second largest supplier after Sikorsky of the US.

Mr Jean-François Bigay, Eurocopter's French chairman, believes this is the first step towards a reduction in the number of leading western helicopter makers from eight to three or four by the end of the decade.

A similar strategy is behind the plans by Aérospatiale – with Dasa and Alenia of Italy – to acquire joint control of Fokker, the Dutch aircraft producer. The trio teamed up last year to form a regional aircraft consortium called Regioliner, controlled by Dasa. If successful, Regioliner's bid for Fokker could help rationalise capacity in Europe's troubled regional and commuter aircraft sectors.

Airbus, the four-nation European airliner group, has been considering making smaller aircraft itself, but has not objected to Regioliner's ambitions because it is concentrating on plans for a long-haul airliner for 600 to 1,000 passengers. However, the bid for Fokker must first obtain approval from the Dutch government and the European Commission's anti-cartel authorities. The Commission is no great supporter of mergers in the regional aircraft industry, having last year caused an outrage by vetoing an attempt by Aérospatiale and Alenia to buy de Havilland of Canada.

Elsewhere in the French aerospace industry, Dassault, the family-controlled producer of fighter aircraft and executive jets, is discussing collaboration on a future generation of fighter aircraft with British Aerospace – a reflection of both governments' belief that Europe cannot afford more than one project of this type.

If it comes to fruition, this new fighter would enter production in at least 30 years' time, and is separate from the four-nation European Fighter Aircraft (EFA) and France's Rafale fighter projects. The German government's rethink over the EFA underlines the pressures on European defence budgets. France is sticking with the Rafale, on which Dassault's future largely depends, but has had to delay first deliveries by two years, to 1998.

Snecma, the main engine supplier to Dassault and Airbus, is also looking for a foreign partner. It is discussing possible collaboration on future military jet engines with Rolls-Royce of the UK. Currently, Snecma is the only European company to develop a fighter jet engine – the M88 for the Rafale – on its own.

By contrast, Snecma decided long ago not to go it alone in civil engines; for the past 23 years, it has had a successful partnership with General Electric of the US. Their joint subsidiary, CFM International, had a 27 per cent share of the world market at the end of last year, making its CFM-56 family of engines the most popular on the market.

All this alliance-seeking activity follows another hard year for France's aerospace companies. If anything, the pressure to restructure is more intense than ever.

The industry's new orders fell by 30 per cent overall last year and sales are expected to shrink by 25 per cent in real terms by 1995, according to Gifas, the industry umbrella organisation. Aérospatiale's orders fell by 50 per cent last year, while Snecma's fell by 30 per cent. Dassault – which has not won a military export order for four years – saw its orders decline by 25 per cent.

After another difficult year, the pressure to restructure the industry has become more intense than ever

Dassault, Snecma and Sextant Avionique, the aerospace electronics group, were all forced to make job cuts. Mr Henri Martre, chairman of both Aérospatiale and Gifas, has warned that more job losses among the industry's 118,300 employees are inevitable. The industry's workforce fell by 2 per cent last year, in line with the fall in sales, but this is not nearly enough given that productivity was improving, argues Mr Martre.

To fund their development, both Aérospatiale and Snecma need fresh capital. Aérospatiale has been negotiating to raise around FFr1bn ($185m) by selling a minority stake to Crédit National, the state-owned bank, while Snecma has indicated that it needs around FFr750m.

Dassault's main problem is the lack of export orders for its fighters. Military sales still account for three-quarters of the group's total turnover, much higher than the average for the French aerospace industry. It has high hopes for selling 100 Mirage 2000-5 multi-role combat aircraft to Taiwan, but the deal is diplomatically sensitive.

At time of writing, the French government was mulling over whether to authorise the deal. A sale would be a coup for Dassault, but would anger China. France has important commercial interests in China and relations with Beijing are already strained because of French tolerance of Chinese dissident activity in Paris. The final decision, says Mr Pierre Joxe, French defence minister, must "take into account all the short, medium and long-term interests of France."

William Dawkins

The unchaining of a State monopoly

France Télécom enters the real world

ONLY a few years ago, France Télécom was a cosily protected monopoly telecommunications operator which never had to worry about international competition.

Today, 18 months after being turned from a government department into a semi-autonomous state-owned establishment, France Télécom is on the offensive, breaking with its old image as one of the few leading telecommunications operators with only limited international interests.

France Télécom is now in the forefront of a trend by the west's telecommunication monopolies to seek international partnerships, to compete against each other in foreign markets and to provide services outside their home bases. The world's fifth largest telecommunications operator has in the past year made more foreign alliances than ever before since its creation in the early 19th century to run a telegraph service for Louis Philippe.

It struck a landmark accord in March with Deutsche Telekom to form a joint venture, Eunetcom, to provide worldwide telecommunications services for international companies. It is a serious competitor to Syncordia, a similar group being set up by British Telecom. Mr Marcel Roulet, France Télécom's chairman, described it as an important contribution to defeating British Telecom's ambitions to be "the only European operator that counts on the world scene at the end of the decade". The Franco-German group will be open to other partners, including British Telecom, though the original partners would always be central, he said.

France Télécom has not been afraid, meanwhile, to challenge British Telecom on the UK operator's home turf. The French group created a stir early last year when it launched Transpac Network Services in the UK to operate private telecommunications networks – like Eunetcom – for large companies. It was the first time that a national telecommunications operator from one European country had decided to compete in the fixed networks of another.

In a smaller UK deal, France Télécom teamed up with the Swedish national telecommunications operator to take a 25 per cent stake in Ram Mobile Data, a British company which offers data transmission by mobile telephone. France Télécom says this is an exploratory investment, to give it a ringside seat at the early development of what may be an important market, similar to the 10 per cent stake it took in Phonepoint, the UK operator of pocket telephones.

Across the Atlantic, France Télécom has formed a joint venture with US West, one of the seven regional Bell telephone companies, to sell mass market electronic information services. This will be similar to France Télécom's Minitel videotext system, the world's largest, whereby subscribers use a small computer box, plugged into a telephone line, to read information, send messages and shop.

Further afield, it has over the past year taken stakes in Telmex, the privatised Mexican telecommunications operator, and participated in a takeover of Argentina's northern networks, to gain an entrée into what will be fast-developing markets, ripe for modernisation. A similar strategy was behind its first two deals in eastern Europe, to open a mobile phone network in Poland, with Ameritech, one the US regional operators, and to help set up a paging system in Czechoslovakia.

If France Télécom has been busy abroad, it has also continued to be active at home, where it is continuing to enlarge its networks, to develop new services and to work on the few areas where it lags behind international competition, such as mobile phones and cable television.

Turnover rose by 7 per cent to FFr115bn last year, on which France Télécom made a pre-tax profit of FFr16bn. However, that dropped to a mere FFr1.6bn net after the FFr14.5bn annual levy which the state charges France Télécom. The levy has for long been a bone of contention between the operator and the government and will disappear at the end of next year, when the group will start to pay normal corporate tax. This would have added an estimated FFr6bn to net profits last year.

As in previous years, last year's sales expansion was led by a strong growth in business traffic. Facsimile machine use rose by 50 per cent, while computer data transmission was up by 12 per cent. The number of lines rose last year from 28m to just over 29.1m, of which 80 per cent are now connected to digital exchanges, giving France one of the highest levels of digitalisation.

Last year, it made more foreign alliances than it did in the century since its creation by King Louis Philippe

This modernisation of what was 20 years ago one of Europe's worst telecommunications services has permitted a steady improvement in quality. On average, a private subscriber can now expect a fault once every 11 years, while the likelihood of finding a call box out of order is seven in 1,000.

Digitalisation has also permitted a fast expansion over the past year in the number of subscribers to Numéris, the integrated services digital network which allows voice, data and pictures to be piped down the same line. Numéris had 150,000 subscribers nationwide by the end of last year, six times more than in 1990.

Minitel, meanwhile, has continued its relentless growth, with a 7 per cent rise in the number of terminals to 6m. French citizens spent a combined total of more than 105m hours last year tapping away at their Minitel keyboards, making use of more than 15,000 services. By far the most popular of these is the electronic telephone directory, with the others ranging from databases, to weather and traffic reports and home banking.

The project, launched 11 years ago, in part owes its fast growth to France Télécom's controversial policy of giving away the most basic of its terminals. This has been criticised by the Cour des Comptes, the government's financial watchdog, as a waste of money. A recent audit by Coopers and Lybrand for France Télécom disagrees, pointing out that Minitel will have made a FFr4.3bn profit in the 16 years to 2000, if the extra traffic it generates is included.

Minitel has had to face one small blot on its reputation over the past year, the continued popularity of erotic message services. Some of these have become so pornographic that the government has imposed a 50 per cent turnover tax to penalise the worst offenders and France Télécom even closed one service.

One of the operator's weak areas continues to be portable telephones, the use of which is still proportionately one quarter of that in Britain. Here France Télécom is staking everything on the future generation of Groupe System Mobile (GSM) digital mobile phones, to enter service in Paris and Lyon from July 1 and a complementary network of mass-market pocket phones, nattily named Bi-Bop, now on trial in Strasbourg. The two existing analogue mobile networks, France Télécom's Radiocom 2000 and SFR, its private sector competitor, have 375,000 subscribers between them, only 25,000 short of total capacity.

Cable television is the other weak area, where subscriptions are running way below break-even, in spite of a huge investment by France Télécom. By the end of March, there were a mere 857,000 cable subscribers out of the nearly 4m households equipped with cable points.

Part of the problem, competition between cabled and conventional television stations, is out of France Télécom's control. Nevertheless, it is helping revive the cable system by increasing its share in the financially squeezed cable operators, part of a government plan unveiled in May.

William Dawkins

Car giants aim to narrow the gap with Japan, writes **William Dawkins**

Challengers in the fast lane

THE FRENCH car industry is emerging from recession stronger and more competitive than before.

It still has some way to go before it can match Japanese levels of productivity, the ultimate target in the minds of the managements of both Peugeot and state-owned Renault. Yet the strides they have made are enormous.

A decade ago, Peugeot and state-owned Renault were on the brink of bankruptcy. Now they are in relatively good health, in spite of having suffered a two-year decline in their main European markets.

Last year, for example, Peugeot maintains it produced the highest net margins of any car maker in the world, even after having suffered a 40 per cent decline in net earnings. Mr Jacques Calvet, the group's chairman, reckons the market will pick up this year. Renault, once one of the public sector's heaviest loss makers, reported well over doubled net profits last year, and is proceeding so successfully with its alliance with Volvo that both partners talk of a possible merger.

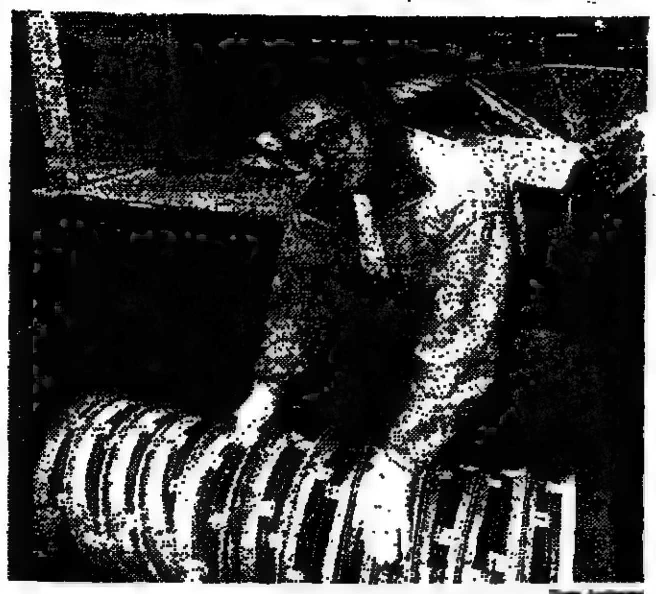
Like their international competitors, French car makers have had to make heavy workforce reductions, down by 25 per cent over the past five years at Renault and down by 5 per cent over the same period at Peugeot, which was less overmanned than its public sector rival. Much more is to come, according to a recent study by the planning commission, which estimates that the French car industry must trim its workforce by another 2.5 per cent annually until the end of the decade to become fully competitive.

Peugeot and Renault have also overhauled factory organisation, introduced just-in-time stock control, Japanese-style production teams, reorganised their design departments, and – more at Renault than Peugeot – modernised their product ranges.

Peugeot reckons to have improved the number of cars made per man by 50 per cent over the past five years, while Renault says it has improved its productivity by 6 per cent to 7 per cent per year over the same period. Both aim at least to repeat that improvement by the end of the decade.

This leaves French car industry's productivity just 10 per cent behind that of Japanese car producers in Britain, itself 10 per cent behind the Japanese in Japan, according to a study by consultants McKinsey for the European Commission.

French car production has also become more efficient. The average Renault plant is now fully operational 70 per cent of the time, while Peugeot Renault even manages 75 per cent; a big improvement over recent years, but still behind the 85 per cent in Japan.



Hub caps for Peugeot: from near bankruptcy to solvency

Of course, getting this far has not been easy, and there are still handicaps to be overcome.

For example, Renault and Peugeot both invested heavily in automated production lines in the mid-1980s. Yet they have since had to retreat slightly, re-introducing more labour and simpler machines to the shopfloor, because the robots proved complicated to maintain and sometimes unreliable.

Tighter stock control has saved financial charges for both of them. Yet the extent to which just-in-time stock control depends on Japanese style labour stability was sharply underlined by a strike at Renault's main engine and gearbox plant, which took just 10 days to bring the group's entire French and Belgian car production to a halt.

The other big shortcoming they have yet to tackle is an ageing and relatively untrained workforce. The average age of workers at one of Renault's main plants at Flins, near Paris, is 45 as against 28 at Nissan UK, according to the planning commission study. In 1989, nearly half of French the car industry's workforce had no professional diploma. Renault is accordingly pushing for European Community and government aid for retraining.

There has, however, been measurable progress in several areas.

● **Quality control.** Peugeot has abandoned the old style of quality control, whereby faults are identified and corrected in an enormous car park at the end of the production line. Now the lines are divided into sections, each managed by an autonomous team, which is responsible for correcting its own faults as the unfinished car passes through.

As a result, Peugeot has over the past five years closed all its refinishing shops. Renault is moving over to the same system and aims to close all its refinishing departments within four years.

● **Components.** Renault and Peugeot are getting less integrated and becoming primarily designers and assemblers. This is another way of cutting costs to the bone, but also reflects the fact that neither wants to become involved in the increasingly electronic and specialised componentry found in modern cars, such as anti-lock brakes or catalytic converters. This leaves their hands free to concentrate on key mechanical components such as automatic gearboxes, where the pair are considering joint production.

Accordingly, the proportion of bought-in components has risen steeply in recent years to just over 60 per cent of operating total costs at Peugeot and 67 per cent at Renault. They have both been selling some of their component businesses or seeking export partners, as in Renault's disposal of a stake in its steering systems subsidiary to a power steering offshoot of Toyota. Renault has now told its component buyers to put in house and external suppliers on exactly the same footing when deciding where to buy.

If they have become more dependent on outside component producers, France's car makers have also been applying more pressure to keep suppliers up to the mark. Peugeot and Renault have for the past five years been running joint audits on component suppliers' quality, grading them according to ability to do their own quality control and at the same time reducing the number of suppliers with which they do business directly.

They are thinking of extending this system to cover suppliers' productivity and costs too. Meanwhile, Renault says it has achieved substantial costs savings by pooling much of its component buying activities with Volvo.

● **Design management.** Another part of the race to catch up with Japan is the time and investment taken to design and launch new cars. Here, Peugeot estimates that the Japanese still have a substantial advance, capable of launching a new model for around FFr3-4bn in three years, as against the French average of FFr6bn to FFr8bn in four to five years. These comparisons are, of course, rough since there is no standard measure for the starting point of a new design.

Nevertheless, Renault and Peugeot reckon they are catching up. Both companies have in the past three years started setting up project teams, so that all departments involved in a new car launch work together simultaneously. Formerly, new cars were designed by a production line-type organisation, with the blueprint passing from the design department through engineering and production management. The time taken to design and launch Renault's soon to be unveiled small car, code-named the X06, was in line with Japanese experience, says Mr Philippe Gras, deputy chief executive. On average, Renault aims to produce a new model in just under four years, down from the previous norm of nearly five years.

Peugeot last year placed the design teams of its two sister companies under a single management to help them work faster and expects to produce the first concrete results from 1994.

The French car industry's progress invites the question of whether Peugeot's continued calls for protection against Japanese competition – not, incidentally, echoed by Renault – should be taken seriously. Last summer's EC-Japan car import agreement allows the Community to set controls on Japanese car sales until the end of the decade – so what can there be to fear?

Peugeot's answer is clear. Japanese cars should not be allowed free access to the EC until Tokyo allows the Europeans the same market share in Japan as the Japanese have in Europe. As Mr Calvet argued in a recent article in the FT, the deal was an example of how Europe has "unilaterally disarmed without anything in exchange". The next few years will show whether Mr Calvet and his colleagues can create the weapons to fight back.

Jacques Calvet of Peugeot

MR JACQUES Calvet, the combative chairman of Peugeot, created quite an impact three weeks ago when he announced that he planned to run for French president in 1995.

The timing was impeccable. Mr Calvet, a right-wing opponent of European federalism, announced his ambitions just a few days before the Danish vote against European federalism.

Mr Calvet's stock in trade is to argue for a strong Europe able to defend its member states' interests, to attack the European Commission, and to warn of unfair Japanese trade practices.

An outstanding member of the business élite, Mr Calvet, 61, started his career as senior adviser to former president Mr Valéry Giscard d'Estaing, when the latter was finance minister from 1970 to 1974. He moved on to Banque Nationale de Paris, the leading state-owned bank, becoming chairman before being kicked out by the Socialists in 1981.

Mr Calvet joined Peugeot a year later, at the invitation of its family shareholders, and instituted a tough programme of cost cutting. As a result, Peugeot last year published the best net margins in the world car industry. **W.D.**

MOTORWAY PLANNING

A fading reputation

MOTORWAYS are one of the few areas where France's reputation for highly organised long term infrastructure planning is coming unstuck.

France is currently agonising over the future of its motorway system on two fronts. First, the success of the two environmental parties in last March's regional election has suddenly placed a question mark over several new motorway projects.

Second, Mr Jean-Louis Bianco, the transport minister, has called for a review of the system of financing motorways, in the wake of a critical report by the Cour des Comptes, the state financial watchdog. The report maintains that at least a third of the national network is not properly maintained and that too much investment goes to big inter-city routes at the expense of regional roads.

> The success of Green parties in the regional polls in March has jeopardised several new motorway projects

One of the Verts' achievements in the regional elections was to gain the presidency of a regional council for the first time, when Mrs Marie-Christine Blandin, a school teacher, took control of the former Socialist fiefdom, Nord-Pas-de-Calais. One of her first steps, to the fury of her predecessor, has been to freeze two motorway schemes, raising fears over what the greens might do to motorway plans in other regions where they are influential, such as Alsace, Haute-Normandie, Ile-de-France and Rhone-Alpes.

Separately, the Cour des Comptes report raised the spectre of a "two-speed" France, with the fast lane provided by semi-private toll charging motorway operators, and the slow lane being the roads financed directly by cash-strapped central and local government.

The central state budget's share of road investment has slipped from nearly 100 per cent in the early 1950s to a mere 27.5 per cent now, with the rest coming separately from the toll road operators, with 43.7 per cent, and local authorities, with 28.8 per cent. Funding for national routes is too often left to local authorities, which as a result cut back spending on regional roads, says the report.

It finds the system of private operators inefficient, in that 10 per cent of tolls goes on the costs of collection. Moreover, the toll motorway system is up to 30 per cent more expensive than a simple two-lane trunk road, given that the law obliges the government to provide a toll-free road in parallel to every toll-charging motorway.

The private operators borrow under a state guarantee and gather tolls, under renewable government concessions, to repay construction costs. Until the early 1980s they were independent, when the state stepped in after after a decrease in road traffic caused most of them serious financial problems. Only one, Cofiroute, has remained independent.

The government usually extends an operators' concession when it agrees to build a new motorway, so that it can pay for the work. This means operators are happy to go on expanding the existing system so long as they can go on collecting tolls from existing motorways, in contrast with the government's original plan that tolls on a given route should only last until the investment, plus profit on that motorway, had been collected. In an earlier report, the Cour des Comptes condemned the system for being managed and developed without any logic.

William Dawkins

Alice Rawsthorn on school ties and other links

The business elite is alive and well

MR GIANNI Agnelli, chairman of Fiat, patriarch of the Agnelli dynasty, may be one of the most powerful men in Italy, but this year he learnt exactly how much – or how little – power he had in France.

In the late 1980s the Agnellis had peacefully and profitably expanded their interests on the other side of the Alps, by using their social contacts to smooth their path in to France. Everything went well until last autumn when the Italians felt confident to do a French deal on their own.

Mistake. The Agnellis' attempt to take over Exor, the company that controls Perrier, the famous French mineral water, by doing a private deal with their old friends, the Mentzelopoulos family, dragged them into a fierce fight with their old French allies – Mr Antoine Riboud, chairman of the BSN food group, and Mr Michel David-Weill, senior partner of Lazard Frères bank – which ended in an embarrassing defeat for the Italians.

Mr Agnelli's error was to underestimate the power of the French financial establishment – the labyrinthine network of influential bankers, bureaucrats, industrialists and financiers who occupy the most powerful positions in France's largest financial and industrial groups.

One of the sharpest lessons of the Perrier affaire, to the Agnellis and to everyone else, was the extent to which the establishment still dominates corporate France. Why is it that a small group of people – mostly from the same narrow background of élite Paris lycées, the Grandes Ecoles and the finance ministry – still wield so much power?

> France's establishment is well entrenched and skilled at closing ranks against intruders

One reason is the tradition of family ownership in large French firms. Some of the most powerful figures in French business – Mr François Michelin, Mr Serge Dassault and Mr Martin Bouygues as well as Mr David-Weill – inherited their positions and *often controlling holdings in* their companies.

These family interests are, in turn, reinforced by the complex web of holdings and cross-holdings that characterises France's corporate sector, together with the intricate system of voting and non-voting shares. As a result many of *France's largest companies are* virtually bid-proof, thanks to their blocking stakes. This offers considerable stability to those at the top.

Another reason is the power of the state. So many large financial and industrial groups are state-controlled that the links between French business and politics are far closer than in most other capitalist countries.

This closeness is accentuated because the government of the day chooses the presidents of all state companies. Many chairmen of the big banks, insurers and industrial groups – such as Mr Jean Peyrelevade of Union des Assurance de Paris, Mr Gérard Worms of Suez and Mr Jean-Yves Habérer of Crédit Lyonnais – worked in ministerial offices earlier in their careers.

As a result, as Mr Agnelli discovered to his cost, the members of the French establishment *are not only well-en*trenched, but well known to each other and extremely efficient at closing their ranks to repel outsiders.

Michel David-Weill of Lazard

IT is, or so they say, quite impossible to find anyone – even in the back-biting world of French finance – with a bad word to say about Michel David-Weill.

In many ways he is the epitome of the cosmopolitan corporate financier – charming, courteous, cucumber-cool and armed with a barrage of amusing anecdotes. It is these social skills, as much as his business brains, that have *turned Mr David-Weill,* senior partner in Lazard Frères bank, into a pivotal figure in French corporate life.

When another corporate skirmish, between two of his closest contacts – Mr Gianni Agnelli of Fiat in Italy and Mr Antoine Riboud of France's BSN – broke out this summer, it was Mr David-Weill who smoothed out a settlement between the feuding factions.

Under Mr David-Weill, who as one of Concorde's best customers divides his time between Paris, London and New York, Lazard has made its mark as one of the world's most powerful merchant banks. It has been involved in most of the major bids of the 1980s and early 1990s, but it has done so discreetly. Lazard Frères is, after all, a bank that does not even have a name plate outside its Paris head*quarters on Boulevard* Haussmann. **A. R.**

THANKS TO A long period of wage restraint, cost reductions, low inflation and general economic stability, French compa*nies are suddenly finding* themselves internationally competitive.

Manufacturing industry has led a steady rise in French exports to its European neighbours since the turn of the year, the main reason behind a sharp improvement in the country's trade position. France recorded a trade surplus in each month of the first quarter for the first time in 20 years, with a record positive *balance of FFr7.79bn in May.*

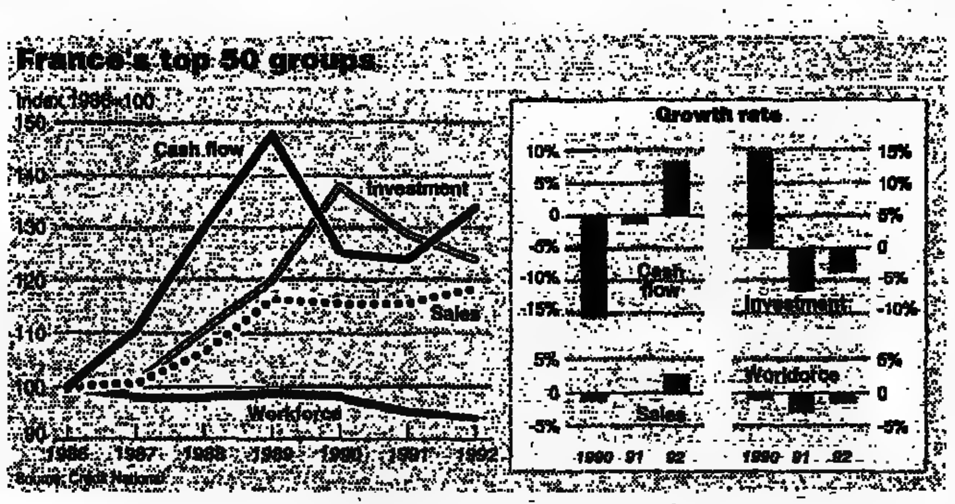
"French companies have made a strong increase in exports not thanks to the growth of the world economy... but because they are more competitive than their competitors. And that is very new. We are producing better and cheaper than elsewhere," said a delighted Mr Michel Sapin, finance minister.

This sudden improvement comes after what has been a hard year for the corporate sector. While the economic downturn hit France later and less hard than some other countries, including Britain and the US, it did depress company profits in many sectors in 1990 and 1991. Last year, only four out of the top 10 companies recorded or are expected to report a profits rise: Renault, Alcatel Alsthom, Total and Rhône Poulenc. Of the rest, two lost money and four made reduced profits.

According to a study by Crédit National, the state-owned bank, the top 50 groups cut their investments by 6.7 per cent last year. This is despite repeated urging from the government to gear up for a recovery, a plea which businesses say they would love to answer if only the government would reduce interest rates.

Mr Pierre Bérégovoy, the prime minister, would like to give them what they want, but his failure last autumn to sustain a rate cut independently of the Bundesbank for more than a month underlines just how much French monetary policy still follows Germany's.

Like their international competitors, French businesses have in any case been been more interested in cutting *costs than investing in new* capacity during the downturn.



Manufacturers sense a breakthrough

Exports revival

Last year, France's top 50 companies made a 2.8 per cent average reduction in their workforces, the biggest cut for many years, with the heaviest losses coming from Usinor Sacilor in steel, the Air France airline, Renault and Peugeot in cars, Michelin in tyres, and Bull and Thomson in electronics.

Crédit National thinks investments by the top 50 will continue to fall this year, by around 3.8 per cent, but that cash flow will recover sharply, from a 1.8 per cent decline in 1991, to an 8 per cent rise in *the current year.*

Crédit National incidentally backs up Mr Sapin's optimism on the international competitiveness of French business with another survey, showing that the largest French companies' net profit margins have been higher than their German counterparts, their biggest competitors and trading partners, for the past five years. Staff costs could be part of the answer, 21 per cent of turnover in France as against 28 per cent in Germany.

However, French companies are still undercapitalised by comparison with German ones in that they continue to pay heavy debt charges while their German equivalents are rolling in cash, on which they receive a steady income. On average, *the top French companies'* debt gearing stands at 70 per cent of shareholders' funds, while German gearing is only 25 per cent, says the Crédit National study, carried out with its German partner, Industriekreditbank. One factor in the high gearing of some of the largest French companies is the heavy borrowing they took on to finance a series of overseas acquisitions in recent years, in a belated internationalisation strategy, which now leaves France's largest companies with on average nearly 60 per cent of their sales abroad.

Some of these takeovers, however, took place right at the peak of the previous upturn, just before the recession hit. Michelin's acquisition of Uniroyal Goodrich, the US tyre maker, and Saint Gobain's acquisition of Norton, the US *abrasives group, are examples.*

It is no surprise that the pace of overseas acquisitions by the biggest companies has fallen off sharply since those big purchases in 1990, so that the value of foreign takeovers by the top 50 fell by 24 per cent to FFr80bn last year, putting an end to four straight years of growth. The big bidders were too busy digesting their acquisitions to think about expanding again for the moment.

All the same, there were some spectacular deals last year. These include the FFr12.8bn purchase by Schneider, the electrical equipment group, of Square D, its US competitor, one of the few successful hostile French bids in the US.

Last year also saw the £300m acquisition of US oil group Amoco's UK petrol station and refining interest by Elf Aquitaine; the FFr3.8bn acquisition of the transmission equipment division of Rockwell International by Alcatel Alsthom, the telecommunications and engineering group; and hotel operator Accor's FFr2.2bn bid for Wagons Lits, the Franco-Belgian travel group.

Equally, France has been on the receiving end of some big acquisitions in the past 12 months, helped by the relaxation of most controls on foreign investment and a testament to the liberal mood of the Socialist regime.

Revealingly, nobody in the the government lifted a finger to find a French solution to the FFr15.46bn takeover battle between two foreign companies for Perrier, the mineral water *group, once seen as a sacro*sanct part of corporate France. In the end, Nestlé, the Swiss food multinational, fought Italy's Agnelli family through the courts to win with a FFr15.46bn offer. Such an open and highly publicised bid battle would have been unlikely only a few years ago.

Daimler Benz, the German cars and aerospace group, was last year given a free hand to take a large minority stake in Sogeti, the holding company which controls Cap Gemini Sogeti, Europe's largest computer services group and one of France's best known post war *industrial successes,* with an option to take full control. Similarly, the Japanese car group Nissan was given clearance to take control of its French distributor, *after having* met official resistance up for the past decade.

In general, all this points to a good climate for the corporate sector. The arrival of the economically liberal Mr Bérégovoy as prime minister in April has probably helped, though Mrs Edith Cresson, his interventionist predecessor, was not nearly as bad for business has her critics make out.

It was, after all, Mrs Cresson who launched fresh incentives for small businesses and agreed to reduce corporation tax again to a flat 34 per cent last year. The cut continued a trend started by the Gaullists in 1986 and leaves France with one of the lowest corporation tax rates in Europe.

William Dawkins

The hottest political issue

A pension for every citizen

IF you mention the words pension reform to a French financier, the response is almost certain to be one of unalloyed glee. Say the same words to Trésor officials and they are likely to reply with a sigh.

The apparently arcane sub*ject of pensions is one of the* hottest topics in French politics. The extreme left apart, everyone seems to agree that the existing system must be reformed. The problem is that noone seems to know how to reform it.

The present pension system is a product of post-war France. Almost all pensions are provided by the state, with the exception of the tiny number of senior executives who belong to *fonds salariaux* company pension schemes.

The system is administered by the Caisse de Retraite, a government body that acts as a cash manager by paying for pensions with money received from those in employment.

This system worked well in the 1950s and 1960s, when France had a young workforce and proportionally fewer pensioners.

But in the 1980s, as the population aged and the number of young employees diminished, the system has come under *pressure. This problem will* worsen in the future as these demographic trends accelerate until the "crunch year" of 2020 when there will be more people *of pensionable age than there* will be working to pay for their pensions.

Private pensions look like the solution. Earlier this year Mr Pierre Bérégovoy, then finance minister and now prime minister, confirmed that the government was committed to expanding private pensions to relieve the strains on the state system. He has since sanctioned a series of small reforms notably the announcement in March of plans for a new tax-efficient personal equity plan.

Mr Bérégovoy is believed to favour more ambitious changes including the eventual introduction of corporate pension funds. So far he has been thwarted by the opposition of the trade unions – which maintain that pensions should be the state's responsibility – and by the sheer complexity of reform. One of the trickiest problems for the Trésor is persuading the electorate that they should shell out extra money for their own private pensions at the same time as they continue to pay for today's pensioners.

Mr Bérégovoy has not yet found a solution. The consensus is that he will wait until after next year's National Assembly elections when he – or his successor – will feel more confident about tackling the trade unions and about tabling potentially unpopular *legislation.*

The French financial community can hardly wait. After all, the new breed of private pension funds will not only provide a lucrative new market for France's banking, broking and insurance industries but also a sorely needed source of investment for the stock market. Mr Jean Peyrelevade, chairman of Union des Assurances de Paris (UAP) and one of France's most powerful *financiers, summed it up with:* "Pension reform is quite simply the single most important issue on our agenda".

Alice Rawsthorn

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Alice Rawsthorn looks at banks and insurance

In the doldrums

ANDRE LEVY-LANG leaned back in his leather chair. "This is a difficult time for all of us," he said. "The market is getting more and more competitive. Last year was tough and this year is not going to be easy."

A few weeks ago Mr Levy-Lang, chairman of Paribas, one of France's most prestigious investment banks, showed just how difficult last year had been when he announced that Paribas had made its first loss.

The only source of solace for Paribas' chairman is that the other big French banks fared little better. Crédit Lyonnais saw its profits fall after a sharp rise in client-risk provisions. Banque Indosuez suffered a slide in profits. Banque Nationale de Paris and Société Générale both returned to profits growth, but neither managed to return to 1989 levels.

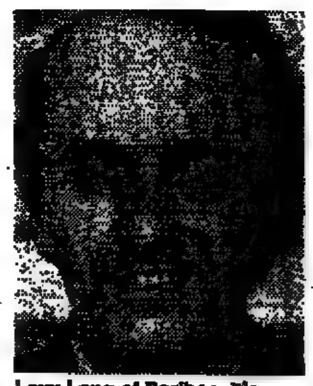
The big French insurers were in a similar position. Axa, the largest private sector insurer, saw its profits fall as did Union des Assurances de Paris (UAP), the state-controlled company which is the biggest single player in French insurance. Assurances Générales de France (AGF) and Groupe des Assurances Nationales (GAN), the other state-controlled insurers, both reported static profits.

The reasons for this litany of lacklustre results vary from company to company, but the broad picture is much the same. France's big banks and insurers have been hit by the effects of the economic slowdown on their fledgling international operations and on their property holdings in France. They are also still struggling to come to terms with life on lower margins in their increasingly competitive domestic market.

Dispiriting though this scenario may seem, the performance of the French financial groups seems positively sparkling compared with that of their recession-struck competitors in the UK and, until recently, in the US.

With the exception of Crédit Lyonnais, which is now paying the price for its aggressive loans and expansion policy in the late 1980s, the French banking industry is seen by analysts as strong and stable. In spite of the rapid rise in provisions last year, charges as a proportion of total loans are still far lower for the French banks, including Crédit Lyonnais, than for the British and American banks.

Similarly, the French banks have made impressive progress at responding to growing competition by cutting costs and restructuring retail networks.



Levy-Lang of Paribas: it's tough and not getting easier

The French insurers are also seen as solid, well-managed companies. They have been hit by the problems of the Paris property market and by ferocious competition on pricing – and profitability – in the non-life sector. But the life market is relatively healthy and seems set for further growth once the government's private pension plans come to fruition.

Moreover, France's insurance groups have been remarkably successful at warding off foreign competition. This may be more difficult in the future, particularly if the French market follows the pattern set in the UK, by moving away from the old system whereby insurers sell through networks of exclusive agents, to direct sales, which may make it easier for new players.

Both the banking and insurance industries face the prospect of fierce competition. The banks, for instance, are as concerned about the expansion plans of the French post office as by the threat of foreign competition. However, the past performance of banks and insurers at containing costs and re-orienting their operations suggests they are in reasonable shape to face their new competitors.

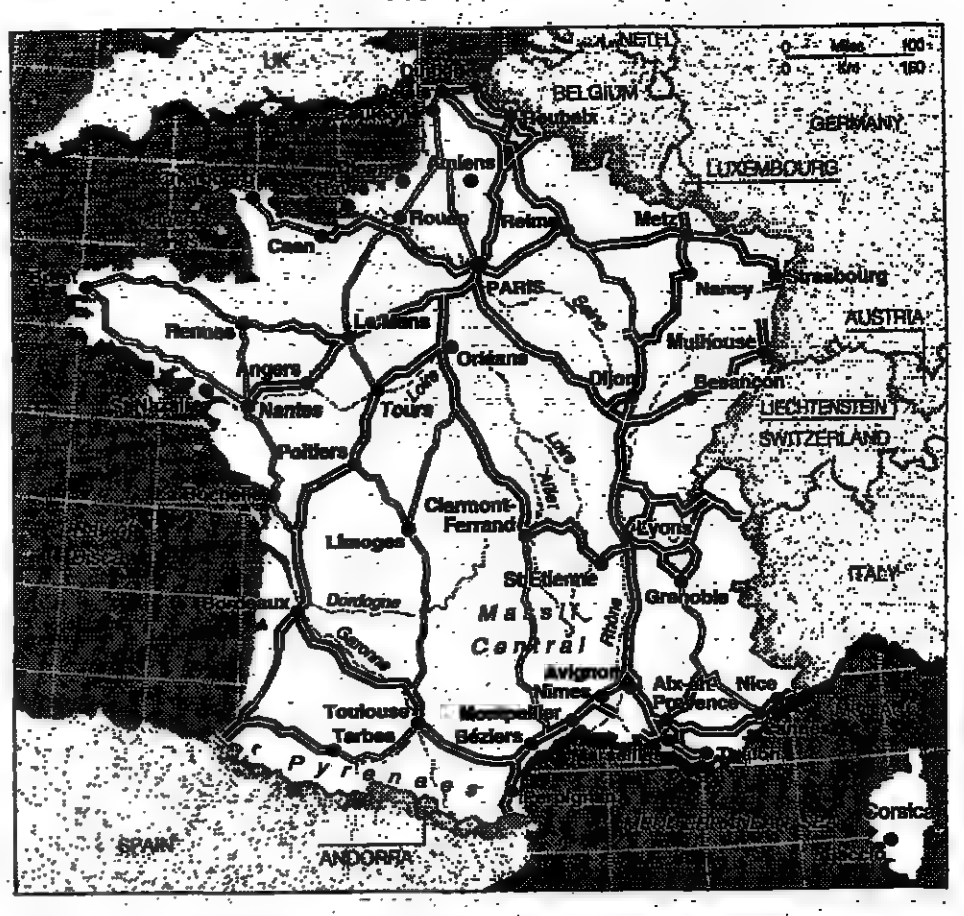
These developments come at a time of broader changes in the role of France's financial institutions, specifically of their relationship with the state. Traditionally, the big banks and insurers have played a pivotal part in the French government's involvement in industry, directly as state-controlled institutions in their own right, and indirectly through the influence they exert as important investors in other companies.

Times are changing. The days when the public sector banks, BNP and Crédit Lyonnais, were at the beck and call of the French government are over. The marked difference between the measured policies adopted by BNP and Crédit Lyonnais' aggressive expansion is testimony to the degree of autonomy they enjoy. From time to time both banks still take on large portions of other state-controlled companies. But BNP is believed to have argued for – and won – more favourable terms from the government for its acquisition of a tranche of Air France shares last summer.

This new, more distant relationship is influenced as much by the commercial constraints of operating in the modern banking industry – where BNP and Crédit Lyonnais have to comply with international capital standards, whether or not it suits their largest shareholder – as by changes in government thinking.

The relationship may become even more distant in the future, particularly if BNP and Crédit Lyonnais follow Société Générale by going into the private sector or if, like the insurance companies, they become part of the government's partial privatisation programme.

President Mitterrand's announcement last summer that the government would sell off minority stakes in state-controlled companies in a series of partial privatisations, heralded a new phase of French industrial policy. The insurers – UAP, AGF and GAN – were named among the first candidates for partial privatisation. It is still not clear what form the share sales will take and whether the insurers themselves will be able to raise capital for their own use, but the government has already tabled legislation to allow it to reduce its holding to 51 per cent.



Nuclear energy takes account of the Greens

Momentum slackens

SECURITY OF supply has been the core of successive French governments' energy policy for the past 20 years and is likely to go on being so.

Short of its own oil, gas and coal, France was crippled by the first 1973 oil shock. One of the first actions of Mr Valéry Giscard d'Estaing, on becoming president a year later, was to launch the most ambitious nuclear energy programme in western Europe, continued with little change over the past 11 years by his successor, President François Mitterrand.

By the turn of this decade, up to 80 per cent of France's electricity was nuclear-generated, making France the most nuclear-dependent country in the world and the second biggest producer of nuclear electricity after the US. Since then, the proportion has dipped slightly, to 72 per cent last year, as some of the earliest power stations neared the end of their lives. Nuclear energy represents 37 per cent of overall energy consumption, still the highest of any western industrialised nation.

Over the long term, Electricité de France (EdF), the *monopoly power supply*, wants to keep nuclear energy at around 75 per cent of electricity production, partly to keep a balance with other power sources such as oil and hydro-electricity but also because EdF's government owner needs to take account, more than ever before, of the rising influence of France's two ecology movements, the Verts and Génération Ecologie (GE).

The ecologists do not deny that France needs secure energy supplies, but they do force the government to be extremely cautious over how the nuclear programme is to develop.

The ecologists' problem, however, is that they are deeply split and they are both unsure whether they want to make an alliance with a mainstream party, let alone which one. Nowhere are the divisions between GE and the Verts deeper than on energy policy.

GE, led by Mr Brice Lalonde, a former environment minister in the *Socialist* government, wants a moratorium on new nuclear plant – not too far out of line with government policy – and permanent closure of a controversial 1200 MW fast breeder reactor at Creys-Malville near Lyon.

Mr Antoine Waechter, head of the Verts, wants all nuclear plants closed within 15 years, an idea dismissed by the government as outrageously impractical. Mr Waechter repeatedly refuses GE overtures for a merger, on the grounds that this would be selling out to the moderate establishment.

The government's attitude to the ecologists is being tested as it agonises over the future of Superphénix, the fast breeder at Creys-Malville. The reactor, the world's most powerful of its type, was closed in July 1990 after repeated safety problems and the government has said it will decide, in the light of independent technical advice, on its future by July 3.

In spite of France's determined reliance on its own nuclear energy, it remains even more dependent on oil than Britain or Germany, which have bigger coal and gas resources.

This is why the government continues to keep a firm hold of the two state owned oil companies, Elf Aquitaine and Total, in spite of its recent privatisation programme.

At both companies, the emphasis is on increasing reserves. Total is concentrating its sights on the Middle East for Total, where it is the largest western oil producer, while Elf has ambitions in Kazakhstan and Russia, where it recently become the first western oil company to sign production sharing deals.

William Dawkins

Trouble brews in the high-rise jungles

Urban danger signals

WHEN riots broke out in Los Angeles this spring, President Mitterrand immediately laid the blame on America's lack of social legislation; such a thing could not happen in France, he implied in a French radio interview. Some people felt his remarks were tempting fate.

Five years ago, the word "ghetto" was used in France to describe an Anglo-Saxon problem; now it is everyday currency *in the discussion of* France's own problem, in deprived dormitory suburbs which combine poverty, crime and intense concentrations of ethnic minorities.

The past two years have seen sporadic violent outbursts in big estates in the Lyon and Ile de France regions. Many more incidents have occurred than are generally reported, from Amiens in the north to Avignon in the south.

Gangs of youngsters, who steal from cars and supermarkets, have been growing younger, with an increasing number aged under 13, when they cannot in law be charged. Crime figures for 1991 show an overall increase of 7 per cent, with the highest jump in the ill-favoured suburbs. Seine-Saint-Denis, for instance, suffered a rise of over 18 per cent. In the March regional elections, it was high-crime communes, where a sense of insecurity is most acute, that gave the National Front most votes.

These developments are not new. But economic and social exclusion has become more acute with renewed high unemployment – nationally now 10 per cent, far higher in the poorer suburbs.

Political attention was first focused on the social consequences of mass urbanisation in the early 1960s, when violent incidents erupted in the outskirts of Lyon. Since then, governments have made repeated attempts to get to grips with the urban problem, notably through the *Développement Social des Quartiers* (DSQ), with its emphasis on multi-agency co-operation, backed by public funds.

At first, it appeared that these social policies might be winning – until the riots which broke out in 1990, again in a suburb of Lyon. Events since 1990 have generated an accelerating sense of urgency, and pushed urban issues nearer the top of the government agenda.

One result of so much attention has been a proliferation of policy initiative, each offering state assistance to encourage local communities or urban agglomerations to solve their own problems; a Minister of Urban Development was appointed to give these policies coherence, as well as to demonstrate political commitment.

The first Urban Minister, Michel Delebarre, mayor of Dunkirk, secured a 33 per cent increase in Treasury funds devoted to urban renewal. But he suffered a serious setback in March, when he lost his power-base as president of the Pas-de-Calais region and he was moved sideways to another ministry. Even more damaging politically was the forced resig*nation in May of his successor,* Mr Bernard Tapie, the Marseille industrialist and football chairman, because of imminent charges for embezzlement.

Only days before, Mr Tapie had announced a sweeping new programme, to demolish and replace some of the most desolate concrete architecture, mobilise large private enterprises in the development of the troubled suburbs, and persuade local residents to help supervise and support the young. Not all commentators were convinced that such measures would meet the long-term needs of the most disadvantaged – for education, training, jobs, affordable housing and adequate public transport.

The new Minister for Towns is Mr François Loncle, a former journalist and close political associate of the prime minister, Pierre Bérégovoy.

Mr Tapie's programme was the centre-piece in a wide government offensive, timed to precede the long summer school vacation. But other measures will go ahead, including programmes to provide sports and other activities for young people who cannot go away on holiday, as well as workshops and local building projects.

This wider government initiative is centred on urban security. More police are being allocated to the priority estates, many of which have a population the size of a middling town, but no local police-station.

Critics point out that law and order are being given higher priority, in view of the national assembly elections next spring. Opinion surveys suggest people in the worst-off estates are fed up with the constant threat of crime.

Thirty years ago, France had to build cheap housing fast. The result was a proliferation of vast concrete estates which are now widely recognised as intolerable to live in. In the past decade, demolition and renovation of these estates has cost FFr60bn. This year's overall budget devoted to urban renewal and security is more than FFr6.2bn. These are France's ghettos, and today France is picking up the tab.

Jennifer Monahan

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Luxury goods trade faces a period of discomfort

Austerity à la mode

WHEN the heads of France's luxury goods groups gather next week in the opulent Louis XVI rooms of the Hotel de Crillon in Paris for their annual Créanova lunch, their mood will be somewhat subdued.

France is still the bastion of the international luxury goods industry. Hermes scarves, Dom Perignon champagne, Chanel suits, Louis Vuitton luggage and Guerlain scents are instantly recognisable all over the world. In the 1980s the French luxury goods houses expanded rapidly in a buoyant economic environment. Now, they face a much more competitive climate.

For the past two years the luxury goods groups have been beset by a significant slowdown – and changes in consumer taste – in major western markets, notably the US and Germany. Now they face the threat of a similar slowdown in Japan, by far their most buoyant market during the 1980s.

At the same time the industry is still adjusting to the structural changes wrought by the influx of investment into luxury goods in the mid 1980s. *The expansion of major players* – from France's LVMH, to the UK's Dunhill and Seibu of Japan – has turned a fragmented industry of small family firms into a more mature sector dominated by a handful of powerful holding companies. This consolidation has aggravated the recessionary pressures on smaller players.

So far it is difficult to assess the full impact of the industry's problems. The situation is complicated by the Gulf War early last year, which caused chaos in the duty free market.

The war was cited as the chief scapegoat for last year's lacklustre results. But to some extent it camouflaged the industry's underlying problems, which are now surfacing.

Mr Bernard Arnault, chairman of LVMH, struck a cautious note at a recent shareholders' meeting when reporting on first quarter trading conditions, as did Mr Pierre Bergé, chairman of the Yves Saint Laurent fashion house.

The chief problem for the luxury goods groups is the economic slowdown in the US which has depressed sales for at least two years. This situation has been aggravated by the financial crisis of the US department stores, the main outlets for designer fashion and expensive cosmetics.

The same scenario has been replicated in smaller markets, notably the UK. But more recently the larger European markets of Germany, Italy and France itself have slowed.

Although this downturn is chiefly due to economic pressures, it also reflects the shift in tastes against the ostentatious values of the 1980s.

Some sectors of the industry have benefited from this, notably the older houses such as Hermes with artisanal roots, whose products evoke the quality and authenticity that consumers are looking for. In spite of the recession, Hermes is selling more of its 2,000 calf leather Kelly bags – which date back to 1935 and take 20 hours to make by hand – than ever.

Other areas of the industry are suffering, particularly the nouveau designers who sprang *up in the 1980s and older* houses without the same heritage as Hermes. Balmain, for instance, changed hands last summer for the third time in three years. Earlier this month Karl Lagerfeld was sold by Revillon, a privately owned French company, to the UK's Dunhill. The whole industry is waiting to see how Orcofi, the holding company founded by the Vuitton family and the L'Oréal cosmetics empire, fares with Lanvin after its relaunch this autumn.

The industry is now threatened by the prospect of a serious slowdown in Japan, which accounts for FFr884m, or a third, of all French designer fashion exports. Until recently Japan was one of the few markets that could be counted on to compensate for the downturn elsewhere. Mr Arnault said that, perfumes apart, LVMH's sales had either fallen or stagnated in Japan during the first quarter of this year.

This situation could become more serious if Japan's economy deteriorates further, or if the Japanese follow the same pattern as in the past by responding to economic difficulty by increasing savings and reducing discretionary expenditure.

Japan's instability poses another problem in that, in recent years, the Japanese have emerged as an important *source of investment for* French luxury goods houses. Martine Sitbon, one of the leading young Paris fashion designers, was recently bought out by the Seibu group which already had an interest in Jean-Louis Scherrer. Chantal Thomass and Jean-Paul Gaultier also have business links with Japan. But the flow of funds from Japan could be more limited in the future.

Meanwhile, the luxury goods industry is trying to come to terms with its own internal changes. The expansion of French holding companies, such as LVMH and L'Oréal, as well as of foreign players like Dunhill and Seibu, has raised the stakes in the industry. These companies have undoubtedly made it more complex, and much more expensive, to function in the luxury goods sphere by *initiating a new era of mainstream* management techniques and extravagant marketing.

It is these companies that have increased the cost of staging a fashion show. LVMH and YSL may be able to afford to pay up to $25,000 for supermodels like Linda Evangelista or Christy Turlington to appear in their catwalk shows, but the specialist fashion houses cannot. Similarly it now costs around $50m to publicise the launch of a new perfume worldwide which is well beyond the means of the smaller players.

This increase in costs is already taking a toll on smaller companies and some of the most prestigious names in French luxury goods – from the grandest of Bourdeaux châteaux to famous fashion houses – are now up for sale. The consolidation of one of France's largest and once most lucrative industries, aided and abetted by the recession, seems set to go on and on.

Alice Rawsthorn

Harvesting in the Sauternes region: a difficult struggle against rising stocks and dwindling demand

Alice Rawsthorn on the economic impact of falling wine prices

A flavour of sour grapes

THERE was a big bang late *one night at Coursan railway* station a few weeks ago. An explosive device blew up part of the points system. The railway between Narbonne and Béziers was out of action until the damage was repaired.

The stranded passengers at Coursan station had become the latest casualties of the problems of France's wine industry. The explosive had been placed by a band of militant winegrowers protesting against the fall in prices, the latest blow for an industry *which has, for the past year,* been in deep financial difficulty. The wine trade is now struggling against a vicious cycle of rising stocks and dwindling demand which could catalyse significant changes in the size and structure of one of France's largest industries.

Only a few years ago the picture looked very, very different. The 1980s were a decade of almost unalloyed success for France's wine makers. They not only benefited from the expansion of important export markets, notably the US and Japan, but also from three years of wonderful wines in 1988, 1989 and 1990.

The vintages of those years were high in quality, but also in quantity. This left the market awash with fine wine when the global economic slowdown began to bite at the end of the 1980s and demand declined.

The négociants, who buy wine from the growers and sell it on to the retail sector, found it difficult to persuade their customers to accept the high prices they were charging for the prime vintages of 1988 and 1989. They found it even more difficult to sell the lowlier wines from 1987.

By the time the 1990 vintage came on the market the wine trade was in trouble. When the wine growers uncorked their 1991 vintages earlier this year, the situation was much worse. The *négociants* were still burdened by stocks of unsold wine and they faced the additional problem of scores of unwanted cases returning from the US, popping up in French supermarkets sometimes still bearing their US customs labels.

The only consolation for the wine industry was that 1991 was a small harvest, owing to the spring frosts and the long hot summer. Industry cynics are pinning their hopes on another paltry harvest this year, which would have the advantage of alleviating the stock problem.

However, it could create serious cashflow difficulties for some companies which will need the proceeds of 1992 sales to fund their businesses in the coming year.

The beneficiaries are, of course, the wine drinkers, who have been able to buy really good wines at bargain prices *for the first time in years.*

Lighter wines from Spain, Australia and South Africa seem better attuned to the modern palate

Some *négociants* are so desperate to reduce their stocks that they have been off-loading top wines – such as Château Cheval Blanc, Château d'Yquem and Château Margaux – on to supermarkets.

Meanwhile, the industry's problems are mounting. Even the prestigious Bordeaux region has been hit. A couple of small merchants have closed. Some of the grandest châteaux are up for sale.

The sales and closures seem set to accelerate this year particularly if, as the wine trade suspects, poor sales of the 1991 wines aggravate the cashflow problems of the wine growers and their *négociants.*

At the same time the French industry faces increased competition from foreign wines – *from over the border in Spain* and further afield in Australasia, eastern Europe and the newly respectable South Africa. These wines tend to be better attuned to the modern palate – being lighter and fruitier – than the heavy, *old* French wines. France also has the problem that the majority of its wines are reds, while latter-day wine drinkers tend to prefer whites.

These competitive pressures, coupled with the general trend against alcoholic drinks, even in France itself, where sales of *high quality wines fell last* year for the first time in more than a decade, will intensify the long-term pressure on the French wine industry. Perhaps the only positive aspect of its present plight is that it should *accelerate the process of* rationalisation required by the industry if it is to prosper in the future.

In brutal terms the industry is too big and too diffuse, being fragmented between too many tiny companies. The way ahead is to plough up the unprofitable acres churning out *poor-quality* plonk – chiefly heavily subsidised small holders and co-operatives in the south – and for the rest of the industry to consolidate into a smaller number of larger, more powerful companies.

This process is already under way. A European Commission initiative to reduce France's wine growing area by 500,000 hectares over the next five years should mop up many of the unprofitable grape growers. Meanwhile, the technological advances in wine production, which have already wrought impressive improvements in quality and productivity, should strengthen the survivors.

Similarly, the industry is already consolidating. The *1980s saw a stream of acquisi*tions and amalgamations in which powerful global drinks groups, such as Suntory of Japan and Allied-Lyons of the UK, invested in French wine. This has already helped the industry in the present recession, given that the new investors tend to take a longer-term view than their predecessors.

These changes are likely to spread to the industry's structure. Traditionally it has been divided between a series of specialised businesses – the wine growers, or *viticulteurs*, and the *négociants. But these dis*tinctions are being eroded. Some *négociants* are becoming involved with wine production and some *viticulteurs* in sales. Châteaux Lafite, Latour and Mouton-Rothschild in Bordeaux all already operate their own *négociants* to sell some of their wines.

*The consensus in the indus*try is that these changes will continue in the future, so that the French are better prepared for the rigours of life in the international wine market of the 1990s.

LONDON BULLION MARKET

Most gold production is at record levels but producers and bullion dealers are feeling the pinch. At today's prices half the world's gold mining capacity is unprofitable and investors remain disenchanted, writes Kenneth Gooding

Havens of inertia

IN some respects the world of gold has never been more dynamic.

Production in countries outside the former Soviet Union is at record levels. More gold is being bought by jewellery makers, gold's main customers. In each of the past four years jewellery fabricators have consumed more gold than was produced by all the gold mines outside the former communist countries.

They also helped to absorb a great deal from other sources such as imports from Russia, disposals by central banks and scrap material.

Jewellers' appetite for gold was whetted because it has been looking such a bargain. Gold has recently been at its lowest point for six years when measured in dollars. Valued in Swiss francs, the metal has been at its lowest since 1978. In yen, it has been at a 20-year low. From the peak of $800 a troy ounce in 1980, reached after Soviet forces invaded Afghanistan and the US froze Iran's assets, gold has fallen steadily and dropped below $340 this year.

Some consumers welcome this trend but producers and bullion dealers are feeling the pinch. On the production front, *about half the world's gold* mining capacity is unprofitable at today's prices. Most of the uneconomic mines are in South Africa, where large workforces dig to depths of up to 2½ miles (4km) to extract the metal from narrow seams.

The steady fall in the gold price has left investors disenchanted. In particular, many North American and European *investors have* quit the gold market in the past few years, relying instead on a vast array of new financial instruments to protect their wealth.

This trend is having a deleterious impact on bullion markets. One analyst aptly describes them as havens of inertia. Yet even in depressed circumstances they play a vital role in the world of gold.

In Europe, North America and parts of Asia gold trading is a highly sophisticated business. Gold is traded round the clock by the most powerful financial institutions in the world.

It is often said that gold bullion trading follows the sun, begining the day in Sydney and then on to Hong Kong and Singapore. It moves west as the markets open in Switzerland and London and then crosses the Atlantic to the New York market and the futures exchanges in the US.

Many tonnes are bought and sold daily as big market makers continually quote two-way *prices (buying and selling* prices) to other traders and to clients, adjusting them throughout the day and night.

In Europe the standard trading quantity is 4,000 troy ounces. The unit of trading in international markets is the so-called *London* Good Delivery Bar. Each bar must contain between 350 and 430 troy ounces of gold and have a minimum purity of 995 parts per 1,000. Bars must be in good condition and bear a serial number and assay stamp from one of 49 acceptable gold melters and assayers worldwide.

London has an important rôle in world bullion markets, not least because of the fix. Every working day at 10.30 am and 3 pm London time, representatives of five bullion houses meet at the offices of N. M. Rothschild to fix the price of gold. Also at the fix are Mocatta & Goldsmid, Sharps Pixley, Samuel Montagu and *Mase-Westpac. Most of them* have been trading gold for centuries and Mocatta can trace its history back to 1671.

At the fix each representative has a telephone line open to trading rooms where dealers are in touch with customers. *Potential* price movements are unlimited during the fixing and the process has been known to take as much as two hours when the market is particularly volatile.

There are two big attractions to being in at the fix. First, it is a truly open market where buyers and sellers are brought almost directly into contact with one another by means of modern technology.

Second, the fix remains the one place to transact very large volume trades because the wide network of traders involved is in touch with so many customers in so many places simultaneously. The result is a single market clearing price. There is no bid-offer spread but a negotiable commission applies.

The fix is held in such regard that it has effectively become the benchmark for the gold market. Many mines, for example, sell their production at the average of the London morning and afternoon fixes over a *period of perhaps a month.*

There are several other firms apart from the five fixers making a two-way market in gold in London. Other organisations will quote to customers on a commission basis and lay off the risk with the professional market makers.

The international market in London, Sydney, Hong Kong and Zurich is known as the loco London market because gold is quoted for delivery in London. Participants usually have a metal account with a London dealer to be credited or debited as gold is bought or sold. Most transactions do offer physical delivery and every transaction is made on the basis of being deliverable. The gold in London vaults effectively underwrites the credits clients have with banks.

London has another advantage over other bullion markets: the presence of the Bank of England. The bank has a *unique status in the gold* industry. It is not just another gold repository recognised by the International Monetary Fund. It has a long history as an even-handed agent in the gold market for many other central banks. The bank acts as the regulator of the London Bullion Market Association which was set up in 1987 and covers all aspects of gold dealing in London.

Outside London, most spot trading is done through Zurich. This dates back to 1968 when the London market closed temporarily at the request of the US Treasury and gave Switzerland's big three banks – Union Bank of Switzerland, Credit Suisse and Swiss Bank Corporation – access to South African production for the first time. Previously South African gold had been marketed exclusively through London.

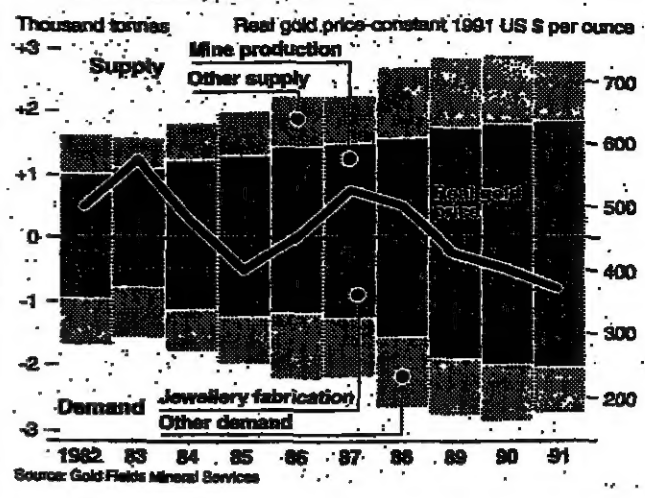
As well as selling spot gold, bullion traders arrange swaps (where the seller promises to buy the gold back at an agreed *price at an agreed future date),* and make prices for forward delivery. In recent years options trading has become an integral part of the market.

Some observers argue that this increasing sophistication of the bullion markets has contributed substantially to today's quiet conditions and to present low prices.

Forward prices and options enable producers and indus*trial consumers to hedge their* future commitments while providing valuable access for investors. However, some analysts suggest this type of trading has resulted in some of the price volatility disappearing from the bullion market. Dealers love volatility because it generates more income and helps to attract more investors.

Forward selling and options trading has become very common among western gold producers because these devices enable miners to lock in guaranteed profits. In exchange they sacrifice a potentially higher return. However, there is no denying the market impact. When the gold price rises the rush of producers to sell more gold forward places a cap on any further increase.

Gold in the western world



Source: Gold Fields Mineral Services

Ironically, the lower the gold price sinks, the more pressure is put on miners to sell forward and stop it going up again.

So the clever schemes made available by bullion dealers have distorted the impact low *prices usually have on supply* and demand. Much more gold mining capacity would have gone out of production by now – perhaps putting the price back on an upward trend – if not for the aggressive forward selling programmes followed by many Australian and North American mining companies. These have been protecting them from low spot prices.

Even South African gold out*put is only slightly down since* the recent peak in 1988 – by 20 tonnes to 601 tonnes last year – but only partly because of the protection give by forward sales. Much more important is the South African industry's ability to take many other steps – such as to stop mining uneconomic seams and to concentrate on those where gold is more abundant and more easily accessible – rather than closing mines.

This cannot continue for ever and analysts agree that some substantial South African mine closures are in the offing. They also point out that it is becoming much less attractive for gold miners to sell forward, so this barrier to price rises might

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Kenneth Gooding talks to Robert Guy and Dick Gazmararian

Need for more turnover transparency

THERE is a need for greater *transparency in the gold market*, suggests Mr Robert Guy, a director of N. M. Rothschild, the bullion house which hosts London's daily gold fixing session. "I find it very difficult *when people ask me the turnover* of the market not to be able to tell them."

Mr Guy was the first chairman of the London Bullion Market Association when it *was set up in 1987 to represent* the interests of participants in the wholesale bullion market. He has only just stepped down after four strenuous years.

Freed from the necessity for diplomatic neutrality, Mr Guy is able to nail his colours firmly to the mast. He suggests that the association went one step in the right direction towards more transparency in July, 1990, when it started to publish details of gold lending rates.

"I believe this attracted more *business to the market, not* only from mining companies, but also from central banks," he says.

Now he has stimulated a debate about turnover transparency. He is very much in favour of the London gold market providing turnover details, not on a daily basis but regular historic statistics. Many other markets do this – Mr Guy points to the London stock exchange as an example of a market where turnover statistics apparently help to lift trade.

"Investors today demand more transparency than they used to. I believe gold market activity would be enhanced if we had greater transparency."

Mr Guy suggests that the management of those companies participating in the market would benefit from publication of turnover statistics. *They* would have some benchmark figures against which to measure their own statistics.

Not every member of the association agrees with him. Mr Guy thinks that most of the LBMA's market making members are in favour but "as we believe in consensus, unless everyone agrees, it won't happen".

Mr Guy startled some in the bullion business recently by suggesting a merger between the gold and platinum markets.

He points out that many

Any company wishing to be an international bullion dealer must have a market making presence in London

members of the LBMA are also part *of the platinum market* and the two markets face similar issues.

Then it would be worthwhile for the combined markets to employ a chief executive to take on some of the work which at present, as far as the LBMA is concerned, is shared between members of the management committee with the backing of an executive secretary and her assistant.

Mr Guy says: "The level of regulation has increased and is increasing. I am sure, for example, that there will be new regulations on financial derivatives and I am also sure this will involve the bullion market."

Perhaps the biggest disappointment during his four years, says Mr Guy, was that the association failed to persuade UK government that gold trading should not attract VAT. He *points out that*, although in theory gold has been de-monetised, it is still accepted along with currency as a reserve asset by governments in creating and managing their reserves. "There is no VAT on currency when an individual buys, why should he be penalised on gold?"

He suggests that the UK government should conduct an audit to see how much it really gains from taxing gold, including a calculation of the revenue collected from VAT, an estimate of revenue lost because of VAT fraud "which obviously still continues", and how much business is lost to the London market as a result of the imposition of VAT on gold.

Mr Guy is particularly pleased with an agreement reached last year between the association and UK Customs and Excise so that trading between LBMA members could continue to be free of VAT. As Mr Guy explains, as long as gold remains under the effective control of an LBMA member, no VAT should be paid when it is traded. It makes no difference if the gold is allocated to a particular customer or not.

Mr Guy's successor as LBMA chairman is Mr Dick Gazmararian. He has no doubt about what is the most important *issue facing the association* today: it is the question of how the London market will be treated as the European Community harmonises its VAT system.

Mr Gazmararian, 46, took over as the association's second chairman in May. He is managing director of Mase Westpac, which *has the distinction* of being the world's only bullion bank. He started his career with Merrill Lynch before spending eight years as managing director of the Hong Kong operations of Mocatta & Goldsmid, the oldest London bullion house.

He joined his present organisation in 1986 when Westpac Banking Corporation, *Australia's biggest bank*, bought Johnson Matthey Bankers from the Bank of England. The bank had rescued JMB two years earlier after it got into some difficulties with its loan book.

He says that, while the association does not expect the EC to remove VAT on gold, neither *does it fear that the tax* might in future have to be paid on every transaction. However, it is having to work very hard to ensure that the European Commission's bureaucrats understand enough about the way the London bullion market works to recognise that the present arrangements agreed with the UK Customs and Excise should be allowed to continue.

Any substantial change is likely to have an adverse impact on LBMA members' cash flow and make the London market just a little less competitive – given that Zurich will not be covered by any EC regulations (at least, not until Switzerland joins the *Community*.)

Time is running short because the Commission hopes to have the issue out of the way by the end of this year.

Mr Gazmararian says that the LBMA's efforts to promote itself will continue. "Promotion is a necessary cost in the times in which we live. More and more is put out by other organisations and regulated exchanges. We have to keep in step with other markets."

But there is a limit to what can be achieved. "Our job is to let people know how they can buy in London – it's an educational matter as much as anything."

Mr Gazmararian says Mr Guy's contribution to the LBMA was unique. He spearheaded efforts to put it together when at first there was some *mutual suspicion*. On one side some long-established members of the market were concerned *that some of* the new participants, being foreign-owned, might be Trojan horses for organisations primarily interested in their own gold centres. On the other hand, there *was some* concern that the association might be run by the five members of the *fix and their interests* would be held paramount.

But the association was pulled together, even though during those first four years the gold price was falling and it is obviously easier to arouse enthusiasm in a bull market.

Mr Gazmararian points out that as he begins his term the *association has 12 market making* members and 50 other members – 62 in all, about the same as when it started four years ago. And 75 per cent of the membership turned out for the association's annual meeting – a sure sign that enthusiasm runs high.

He suggests that today any company wishing to be an international bullion dealer must have a market making presence *in London*.

Guy: in favour of providing turnover details

Gazmararian: LBMA's efforts to promote itself will continue

■ DERIVATIVES

Market hooked on hedging

THE GOLD market is hooked on derivatives, and shows no signs of breaking away from its addiction.

Gold miners are spoilt for *choice for hedging instruments* which allow them to lock in a guaranteed profit and achieve *prices* on their sales well above the market average. Among the hedging methods listed at last year's Financial Times gold conference were *FDFs* (fixed date forwards); SDFs (spot date forwards); CSOs (committed sale options); CPOs (committed purchase options); COs (compound options): Double Os (overnight options); KO options (knock-out options); CCSs (committed *close-out* sales); and SIPs (simulated inventory positions).

'All I know is it's there and if you ignore it you are not really analysing the full gold market'

This *a la carte* menu is changing all the time as the market changes. "If we were to go into a bull market – a real *bull* run – there would be a suite of derivatives emerging appropriate to that bull run," *says one gold market analyst*.

However, the market is very far from a bull run,with general agreement in the industry that the plethora of hedging activity has been a factor in trapping the gold price in its relatively narrow trading range for the past two or three years in spite of events such as the Gulf war and the break-up of the Soviet Union.

Every time there has been a *spike in the price, a substantial* part of the mining industry has sold gold forward by the tonne, putting a cap on the price. This has led to a situation today where some mines are achieving prices of $420 a troy ounce when the spot price is about $340.

It would be hard to persuade any company not to *maximise* profit and minimalise risk. But the Catch 22 appears to be *that the more the market* hedges, the more pressure is placed on the price, and the more the mining companies can tell shareholders they were right to hedge.

"It becomes a vicious circle," says an analyst, pointing out that six months ago mines were hedging when the price was at $360 a troy ounce – a *level they would be only too* happy to grab now.

Hedging affects the gold *market by helping marginal* mines to stay in business. A substantial amount of world production has been protected as far out as 1996, and it is no accident that the biggest increase in hedging activity in the past year has been in the high cost South African mining sector.

While the forward, gold loan and options markets have long been in existence, it was not *until the mid-1980s that* derivatives really took off, starting with the rise of the Australian gold industry. It made sense at a time of high interest rates to borrow bullion which was available in the local market rather than to borrow dollars to exploit the shallow, low cost, low grade deposits that the Australians wanted to bring on stream.

The gold market took the lead from the money markets whose products were easily transferred because of the quasi-monetary characteristics of gold.

The fact that gold is a contango market (*the forward* price is always at a premium to the spot) has been one of the factors attracting mining companies. There is so much gold available above ground that the market is unlikely to lapse into backwardation (where the *forward* price is at a discount to the spot price) for any long period.

Most of the users of the derivatives tend to be on the *supply side; on the demand* side there has been a growing disenchantment by investors, while jewellery fabricators are simply not big enough to have the necessary credit lines. The lack of a counter balancing demand side to the equation adds to the capping effect on the market.

At the current level of sophistication, a mining company can tell a bullion dealer the kind of hedging *strategy* it has in mind and ask for a tailor-made product, according to Ms Jessica Jacks, economist with RTZ, the world's biggest mining company. Declining interest rates, lowering contangos and a declining spot price will just generate another suite of more-appropriate hedging strategies. And in quiet market conditions there is plenty of time to devise fresh derivatives to *tempt producers*.

Now producers have started to sell into a price decline, reflecting a view of prices which can best be described as realistic, but also a desire to continue using hedging policies. "My feeling is that it's really a feature of the market that's going to hang around," says one analyst.

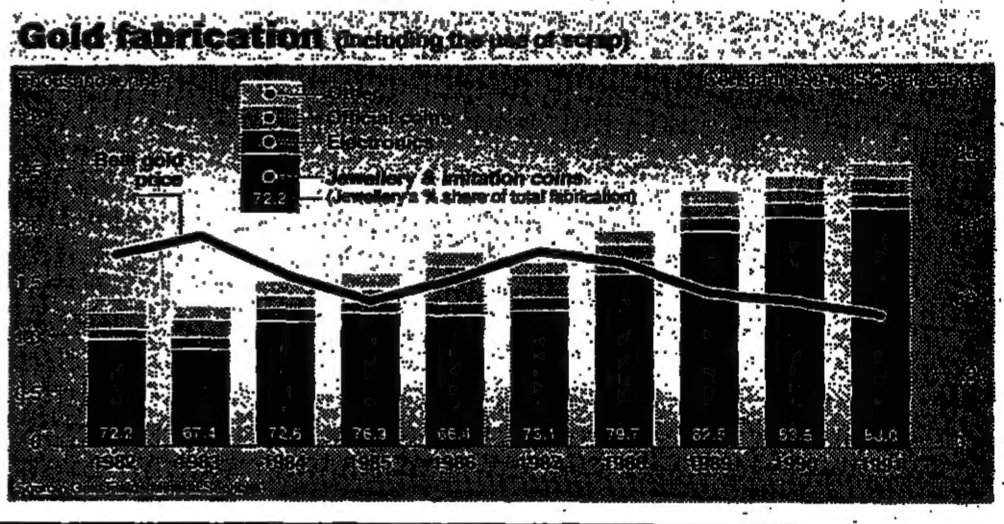
The changing strategy of the mining companies is reflected in a sharp fall *in forward sales* – from 249 tonnes in 1990 to 51 tonnes last year, according to *Gold Fields Mineral Services*, which gives four reasons. Sales increased substantially in 1990 (year of the Gulf war); the market has been range bound, with low volatility; interest rates have fallen; and there has been a gradual change in attitude by some producers to forward sales.

Gold loan repayments exceeded the demand for new loans last year, leaving a net repayment to the market of 11 tonnes. The trend has continued – on April 29 this year Newmont Mining, North America's biggest gold producer, bought 11.7 tonnes of gold in order to pay off a gold loan early. Ms Jacks estimates that as much as 100 tonnes could be repaid this year.

There is a full spectrum of *philosophies in the mining* industry – on the one hand Homestake which refuses to hedge, and *on the other* American Barrick or some of the Australian companies which almost "monetarise" their gold before they've brought it out of the ground.

As one analyst says: "I don't know if it's right or wrong. All I know is it's there and if you ignore it you are not really analysing the full gold market."

David Blackwell



■ SUPPLY AND DEMAND

Production heading towards a plateau

THE total supply of gold to the world market fell last year for the first time since 1983, to 2,815 tonnes from 2,913 tonnes in 1990, according to the annual survey of the market by Gold Fields Mineral Services.

While Western gold mine production continued to rise in spite of prices at the lowest real level since the 1970s, the rate of growth in mine production slowed to just 2 per cent, the lowest increase in the past 10 years. Nevertheless, total mine production set a new record of 1,782 tonnes.

Gold Fields believes mine production is heading towards a plateau if not a peak. It believes the slowdown reflects "the increasing difficulty of attracting finance for marginal properties and the depletion, rationalisation or closure of some older mines, offsetting increases from new capacity."

Gold's attractiveness in the developing countries is that it is stateless, anonymous, and invisible

However, Gold Fields points to the tenacity and adaptability of the mining industry in the face of low prices. It adds that this reflects the non-feasibility of putting many underground mines on to a care and maintenance basis.

Mr Andy Smith, analyst with Union Bank of Switzerland, points out that many observers had expected production to fall sharply. "We were promised a cliff – but now we have a plateau as far as the eye can see."

It was a mistake to assume that the mining and financial services industries would not respond to low prices. Mines adjusted their costs and the derivatives market helped them to realise higher prices.

Mr Smith also points out the gold mining industry has benefited from cheap finance provided by gold loans and forward sales.

These have enabled it to double production over the past 10 years. The industry now works on gold borrowed from the central banks at very low interest rates, a policy which has kept more mines in business than would otherwise have been the case.

Gold Fields suggests, however, that the impact of forward sales and gold loans was much reduced last year "owing to the combination of low spot prices, a less attractive forward price due to lower interest rates, and an absence of price spikes." Forward sales fell from 254 tonnes in 1990 to 51 tonnes last year, while 11 tonnes of gold loans were repaid, leaving a net impact of 40 tonnes on the supply side of the equation.

Gold Supply and Demand in the Western World (tonnes)

	1982	1986	1988	1989	1990	1991
Supply						
Mine production	1,032	1,294	1,547	1,677	1,744	1,782
Net communist sales	203	402	263	266	425	226
Official sector sales	-	-	-	217	-	105
Old gold scrap	243	490	351	360	490	410
Implied disinvestment	196	-	239	164	-	241
Gold loans	-	17	164	76	5	-
Forward sales	-	45	105	65	249	51
Total supply	1,674	2,248	2,669	2,826	2,913	2,815
Demand						
Jewellery	936	1,168	1,532	1,907	2,037	2,111
Electronics	89	123	133	137	148	147
Other	271	468	258	269	255	285
Total fabrication	1,296	1,759	1,923	2,312	2,440	2,543
Official sector purchases	85	145	285	-	86	-
Bar hoarding	294	214	461	514	235	261
Hedging	-	-	-	-	-	11
Implied investment	-	131	-	-	173	-
Total demand	1,674	2,248	2,669	2,826	2,913	2,815
London gold fix ($/oz)	374.96	367.92	438.77	380.79	383.59	362.26

Source: Gold Fields Mineral Services. Totals may not add due to independent rounding

Net sales from the Communist bloc, in which Gold Fields still includes the former Soviet Union but not eastern Europe, fell to 226 tonnes last year from 425 tonnes in 1990. This is the net result of imports to China exceeding Chinese sales to the West in 1990. Sales from the former Soviet Union fell only marginally, and are now put at more than 1,000 tonnes over the last three years, "although as much as 20 per cent of this metal may have been used in swaps".

Central banks reverted to being net sellers last year, with net sales of 105 tonnes compared with net purchases of 66 tonnes in 1990. Gold Fields says this reflects a variety of policies, from outright distress sales to a deliberate decision to reduce the gold content of official reserves.

The biggest shift in the market, according to Gold Fields, was the implied disinvestment of 241 tonnes from the private sector, which purchased 173 tonnes in 1990. This is attributed to disposals of bullion and coins by European and US holders and sales of stocks from Europe on behalf of Japanese and Middle Eastern investors.

Gold demand is dominated by jewellery fabrication, which rose by 4 per cent to 2,111 tonnes – a record – in spite of the recession. "The reasons for this robust growth include the stockbuilding by jewellery distributors and retail outlets in many European and Gulf countries and a rapid rise in demand from China," says Gold Fields.

Gold used in electronics fell by only 1 tonne to 147 tonnes in spite of a sharp downturn in computer sales and the first signs of weakening military equipment orders. Dental use rose quite strongly.

Sales of all the main bullion coins fell sharply with the exception of the Australian Nugget. The issue of a special coin to celebrate the enthronement of the new Emperor in Japan soaked up 60 tonnes and distorted the figures. Without this, coin fabrication would have fallen below 100 tonnes for the first time since 1974, Gold Fields says.

Total hoarding of gold in Latin America, the Middle East and Asia fell. The report wonders whether "the behaviour of bar hoarders in Asia is now becoming more similar to that of Western investors, with a falling price promoting disillusioned sales rather than bargain hunting purchases."

The gold price, which averaged $362.26 last year, has continued to fall this year. Gold Fields blames the poor performance on, among other things, a decline in global economic output for only the second time since the Second World War, the rapid resolution of the Gulf war and the easing of political tension with the demise of the Soviet Union.

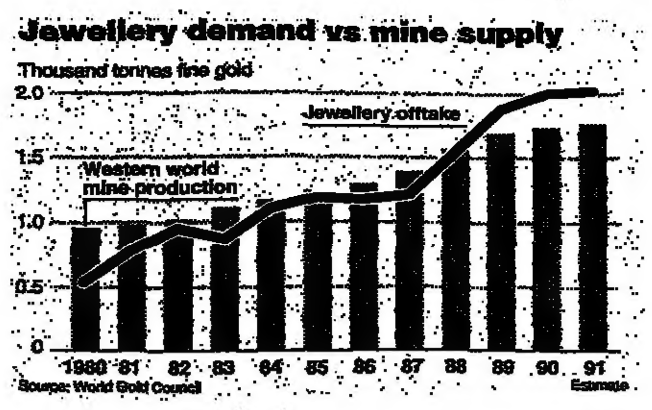
The outlook is more positive because output should fall as more than a third of gold production is unprofitable while consumer spending and inflation are near cyclical lows. But if economic recovery is weak, says Gold Fields, additional gold sales could be prompted, keeping the lid on prices for some time.

Mr Smith of UBS believes gold is becoming a North-South market.

He points to the fact that most jewellery sales and almost all investment are in countries that abhor paperwork and revel in the non-transparency of gold markets.

"Gold's attractiveness in the developing countries is that it is stateless, anonymous, and invisible," says Mr Smith. He believes the big question for the market in the 1990s is whether countries such as China will absorb more gold than is being dishoarded in the west.

David Blackwell



Top 10 Gold Producers (tonnes)

(1990 in brackets)	1991	1990
1 (1) South Africa	601.1	605.1
2 (2) US	300.0	294.2
3 (3) Soviet Union	242.0	270.0
4 (4) Australia	234.2	243.1
5 (5) Canada	176.7	167.0
6 (6) China	110.0	95.0
7 (7) Brazil	80.0	84.1
8 (9) Papua N Guinea	60.6	33.8
9 (10) Chile	32.5	33.3
10 (11) Colombia	32.2	32.5

Source: Gold Fields Mineral Services

■ THE CENTRAL BANKS

A poor return on their metal

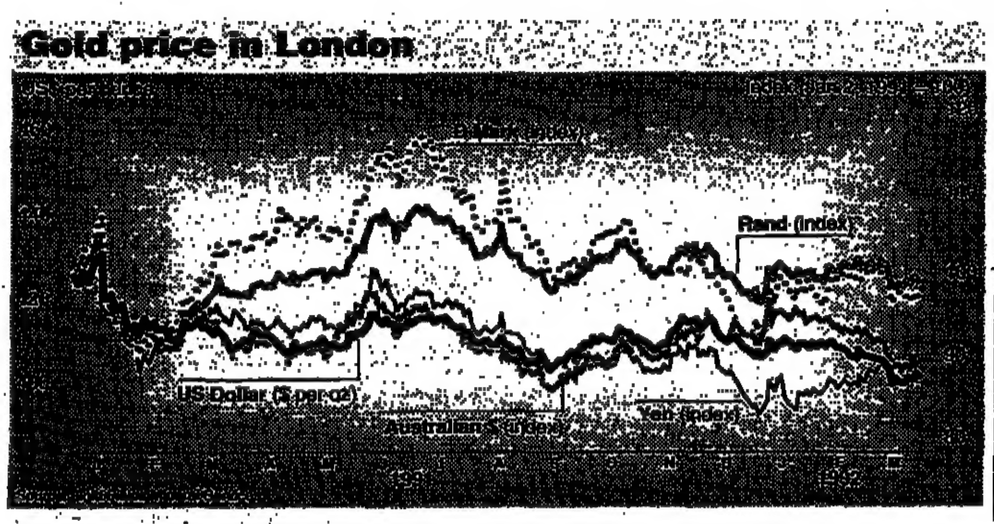
THE jury has been out on gold's monetary role since Lord Keynes described it nearly 50 years ago as "a barbarous relic".

Until 1968 the verdict seemed to be going against the indestructible yellow metal as the successful defence of an official valuation of $35 a troy ounce condemned it to a wasting role as a reserve asset. But then the freeing of the price and the accelerating rise in the 1970s threw new light on the case. By 1980 Mr Irwin Shiako, a leading New York bullion analyst was telling a conference of the American Mining Conference: "Gold is now the world's single most important reserve asset".

That was gold's glory year, when the London price ranged between $474 and a record $850 an ounce. At the year's average of $614 an ounce the 35,000 tonnes in official hands were worth nearly £700bn, close to 70 per cent of the western world's reserves. The price is now not much more than half that level and the central banks' attitude seems to have been adjusted accordingly.

The central banks and other official financial institutions remained buyers of gold until the late 1980s, according to the American Precious Metals Advisors consultancy group, which estimated at the beginning of last year that their net purchases in the four years from 1985 amounted to more than 650 tonnes. But it put their net sales at 155 tonnes in 1989 and 62 tonnes in 1990. Moreover, it suggested that the 1990 figure should properly be put at about 120 tonnes because Japanese reserves had temporarily been inflated by the purchase of 60 tonnes for commemorative coins to be minted in 1991. Some of this gold was bought from central banks in Canada, Belgium and possibly France, APMA said.

By the middle of last year the value of central banks' gold reserves was down to $368bn, said Mr Ricky Hall, assistant general manager of the Bank of International Settlements. That represented a fall of 47 per cent from the 1980 level.



The banks were getting a poor return on this metal, he said. Even at a modest compound interest rate of 6 per cent gold bought 10 years earlier at $459.25 an ounce should have been worth $823 an ounce, instead of the $361.20 ruling at the time.

He suggested that central bankers who were worried that they could not put their gold holdings to work for fear of causing shame or a political loss of face, should consider setting up a form of mutual fund which would hold some of their gold reserves in good delivery form only in physical locations of its own choice.

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"The fund would need to have access to the currencies it needed by borrowing or doing swaps in its own name," he said. "By going through the fund any embarrassment which a central bank might feel about mobilising its gold directly in the market place could be overcome."

According to Mr Andy Smith, analyst with the Union Bank of Switzerland, many central banks have found ways of mobilising their gold holdings without embarrassment. "Up to 800 tonnes of official gold may be in circulation in the interbank gold market on any given day, equivalent to half the western world's mine supply . . . unsurprisingly this 'easy gold' policy has kept the cost of borrowing gold very low," he said.

Mr Smith foresaw the central banks becoming an increasingly bearish influence on the gold market. "It is reasonable to expect the banks to become net sellers of about 700 tonnes a year from the mid-1990s."

Gold's monetary role was "now history for private investors and central banks. Selling gold would be just part of a day's work for a central bank, not an admission that the financial world as investors know it was about to end".

Mr Smith calculated that if the eight countries that between them accounted for more than 85 per cent of central bank gold were to sell all their gold and reinvest the proceeds in interest-bearing paper, the combined annual return, in perpetuity, would be $21bn.

"On a per capita basis," he added, "the annual dividend would be impressive enough to catch the eye of the most well-to-do tax payer." Mr Smith made that calculation about six month's ago. At the time of writing nearly $1bn has been knocked off the potential combined yield.

Although such an extreme course was not to be expected Mr Smith said that central bankers were certainly under pressure to include gold sales in their gold mobilisation policies. For example, as part of a recent revised treatment of US net international indebtedness the US Commerce Department had revalued US gold reserves at market prices rather than the still official $42 an ounce. "Clearly, an unrealised asset value of over $80bn has not completely escaped US official attention."

Mr Smith noted that a single European central bank would control 40 per cent of the world's official gold reserves, while "a single European currency reduces the principal need for reserves of any kind – intervention in currency markets".

So the rescue of the Maastricht agreement could be bad news for holders of gold. This is especially so if, as Mr Smith suggested was possible, EC member states, seeing that a Eurobank could economise on all reserves made "pre-emptive strikes, liquidating gold and currency reserves to the benefit of tax-payers before the ink is dry on Eurobank statutes".

Richard Mooney

■ LONDON GOOD DELIVERY LIST

Bars face rigorous tests

IF a large gold bar is good for delivery on to the London market, then it is acceptable anywhere where gold is traded.

This did not happen by design. No-one is sure when the words good delivery came into being. Mr Les Edgar, chairman of the London Bullion Market Association's physical subcommittee, says the phrase surfaced in the 1920s, but the oldest surviving list of good delivery refiners available to him dates from 1934.

"We don't quite know what went on in the early days as the informal customs of the market developed into formality," he says. There is no way of knowing how bars were tested, but they were known to be deliverable and were the currency of the day.

That first list comprises mainly British refineries throughout the world, including South Africa. The London market shut for the Second World War and did not open again until 1954, when the good delivery list, although dominated by British and Commonwealth refineries, was much bigger. Since then it has expanded to include Asian and Latin American refineries as different countries discovered the advantages of good delivery status. The list is still growing – three refiners have been added this year.

A rigorous process has to be undergone in order to attain good delivery recognition. But refiners remain keen to get on the list, which is printed every year and sent to all LBMA members and other interested parties such as central banks.

Mr Edgar believes this is because if a refiner cannot add value to his gold, but has to cast the raw material, "it's good to know it's of a standard someone will always buy with no hassle".

Any applicant must have been in existence for not less than five years, and refining

'If we are happy at the eye stage the bars are sent to two referees'

for not less than three years. It has to have been producing more than 10 tonnes of gold a year in the form of bars weighing 400 troy ounces.

The net worth of the applicant must exceed £10m, and the central bank of the country in which the applicant is based must have accepted its bars.

Only when all these conditions have been met can the applicant write to the LBMA, including among other documents the central bank letter of recognition, audited financial statements and 10 colour photographs showing bars produced by the company.

An applicant can be rejected at this paper work stage of the process, and never make it to the second, technical stage. "We might see from photographs that his bars look like rubbish, or we may have problems with his finances, says Mr Edgar.

Once the paperwork requirements have been satisfied, the applicant must provide a sample of gold bars which comply with the LBMA specifications. They must weigh between 350 troy and 430 troy ounces, and be 99.5 per cent pure gold.

The specifications reflect the necessity of keeping to an unchanging standard so that all the bars already deep in vaults around the world are not invalidated.

The very fact that the weight is measured in troy ounces, a unit used at the annual fair at Troyes in France in the Middle Ages, is testimony to gold's value as a steady currency in a changing world. (A troy ounce is slightly heavier than the UK

Any applicant must have been in existence for not less than five years

ounce at 14.58 to the lb, equivalent to 32.15 per kilogramme).

In reality modern bars are consistently close to 400 troy ounces, and modern refining techniques mean that most gold is of 99.99 per cent purity, "and frequently a premium can be obtained for such high grade material," says Mr Edgar.

Each bar has a serial number and the stamp of the refiner. It is traditional not to put the weight on the bar because if there were an error on the original weighing the bar would have to be amended.

The gold not only has to pass the technical specifications, it also has to look good. "Bars should be of good appearance, free from surface cavities or other irregularities, layering and excessive shrinkage, and must be easy to handle and convenient to stack," the LBMA demands.

This is very much a subjective test. The vault man in charge of the bars will get another three or four vault men to attend from the eight vaults in London and carry out a joint inspection. It is possible for bars to be rejected at this stage and a request for bars to be resubmitted.

"If we are happy at the eye stage the bars are sent to two referees," says Mr Edgar. They carry out a series of assays and melting procedures and produce a report.

The applicant is then sent 24 gold samples he has to assay. "His assaying ability is thoroughly tested," says Mr Edgar. "Where problems arise it is on the assay testing side – the test is necessarily a tight one."

Past this last hurdle, the subcommittee will recommend the applicant to the LBMA as a producer of acceptable bars. Only then will the LBMA confirm that the bars are good delivery in London.

David Blackwell

■ THE FIXINGS

At the tip of an iceberg

AT 10.30 am and 3.00 pm every working day N. M. Rothschild & Sons hosts one of the City of London's most select parties – the London gold fixing. It is select but far from exclusive. The five members of the fixing committee constitute the tip of an iceberg that incorporates virtually the whole of the world gold market.

The five – representatives of Rothschild (traditionally chairman of the fixing committee), Samuel Montagu, Mocatta and Goldsmid, Sharps Pixley and Mase Westpac – are in constant contact with their dealing rooms, which are in turn in touch with traders around the globe.

The fix begins with the chairman naming a price that he has chosen on the basis of pre-fix trading activity. That is relayed through the dealers to their customers, who respond with pledges to buy or sell at that price certain quantities of good delivery bars of about 12.5 kg (worth about $135,000 each).

These pledges are netted by the individual fix members who then announce if they are sellers, in which case they specify the amount, or buyers, in which case they do not state the size of their bids.

If there are no sellers the price is raised; if no buyers, it is lowered. When both buyers and sellers are declared, the chairman asks for "figures please" and the volume of bids is announced.

If the bids outweigh the offers the price is raised, if the sellers are in the majority it is lowered. The process continues until the price is found that achieves equilibrium between bids and offers.

This is indicated by the miniature Union Jacks that are placed in front of each committee member being laid on their sides, following which the chairman cries "fixed".

However, there is no rush. Market conditions can change by the minute and buyers and sellers can change their minds. Any committee member can halt the proceedings by calling "flag up" and raising his little Union Jack while he consults with his trading room.

The whole process can sometimes be completed in minutes, but it has been known to take two hours when the market is in a particularly excitable mood.

The fixing ritual, though venerable, is far from ancient. It dates from Britain's abandonment of the gold standard during the First World War. Until then the Bank of England stood ready to buy any amount of gold at £3.17.9d a troy ounce and to sell at £3.17.10½d. During the war the bank bought all South Africa's gold output at £4.4.11d, but when sterling was devalued against the US dollar in 1919 it was persuaded to allow all South African gold, about half the world's output, to be sold by N. M. Rothschild "at the best price obtainable, giving the London market and the bullion brokers a chance to bid".

The first fixing took place, by telephone, on September 12 of that year and the price was £4.18.9d, reflecting the higher grade being offered and a pre-

Some traders have argued that daily volume figures should be published

mium on account of sterling's depreciation against the dollar.

For nearly 50 years – except during the attempt to reimpose a gold standard for sterling in the period 1925-31 and from the start of the Second World War till 1954 – the fixing thrived, principally as the outlet for South African gold, with the Reserve Bank of South Africa using the Bank of England as its selling agent.

The Bank of England operated on the re-opened market, as did other central banks, to hold the price at $35 an ounce for reasons of monetary policy. This was in accordance with President Roosevelt's 1934 decision, confirmed by the Bretton Woods Agreement in 1944. As

Good delivery bars are worth about $135,000 each

upward price pressure built up the London Gold Pool was formed in 1961, with the Bank of England acting on behalf of Britain, the US, Belgium, France, Italy the Netherlands, Switzerland and West Germany to maintain that price.

However, pressure continued to build up, with Soviet gold sales drying up, sterling under pressure and the US suffering from balance of payments difficulties as well as the Vietnam War. Despairing attempts to hold the line after sterling's 1967 devaluation were finally abandoned on March 15, 1968 when Mr Roy Jenkins, the Labour chancellor of the exchequer, announced that the gold market had been closed "at the request of the US".

When the London gold market opened its doors again two weeks later it was on a world that was scarcely recognisable, and the role of the fixing had changed for ever.

South Africa had switched much of its business to a new pool of Swiss banks operating through the Zurich market and a two-tier market had been established. Central banks traded among themselves at the official $35 price and other

The fix begins when the chairman names a price chosen on the basis of pre-fix trading activity

business – for speculators, hoarders, jewellery and other industrial users – was conducted in a free market.

"That year really was the watershed in London's history," said Timothy Green in his book The New World of Gold. "The story really does divide before and after 1968. As one dealer put it, 'We used to be a distribution centre for South African and other people's gold; now it is a market place, a trading forum'."

Throwing complacency to the wind, the London market introduced the second fixing at 3 pm and started to fix the price in dollars; both moves being designed to attract US market operators.

Since then the London fixing has become as important an institution in the new, investor-based market as it was when central banks ruled the roost. The price levels it sets apply to a relatively small amount of the business done in a round-the-clock market. But they are valuable snapshots (sometimes time-exposures) of the state of the market and investors know that the fixing price results from the matching of a substantial volume of business. For this reason producer sales are often tied to the fixing price and many central banks use a fixing average in revaluing their gold holdings.

The actual amount of business done at the fixings remains a secret, though some traders feel that, in the interest of market transparency, daily volume figures should be published.

Prominent among these is Mr Robert Guy, who recently stepped down as chairman of the London Bullion Market Association. But others argue that such information would be meaningless as fixing volume represents only the sum of the unmatched business of myriad individual traders and would give little idea of the true extent of the business covered by the fixing price.

For the time being, therefore, it seems likely that the market will retain some of its mystery and that the stock response to a query on the level of turnover will continue to be "oh, several tons".

Richard Mooney

Havens of inertia

Continued from front page

prove less effective in future.

The unknown quantity in the gold market is the future behaviour of the central banks. Between them they have more than 35,800 tonnes of the metal in their vaults, equivalent to about 17 years' production. In the past few years the central banks have been net sellers and have the potential to cap price rises in the second half of the 1990s as effectively as forward selling by producers has done in the past few years.

Perhaps the biggest bet on a gold price increase has been placed by Newmont Mining of the US, the biggest producer outside South Africa. On April 29 this year – the day the gold price was fixed in London at $333 an ounces, its lowest point for six years – Newmont bought 11.7 tonnes of gold (375,000 ounces) at a cost of nearly $126m to pay back early a large gold loan.

Mr Jim Hill, Newmont's vice-president, corporate relations, says: "We felt that, whereas the gold price might go down a few more dollars, the trend from now on would be up."

Bullion dealers fervently hope Newmont is right.